QRx Pharma

2008 Annual Report

QRxPHARMA IS A CLINICAL-STAGE SPECIALTY PHARMACEUTICAL COMPANY FOCUSED ON THE DEVELOPMENT AND COMMERCIALISATION OF THERAPIES FOR PAIN MANAGEMENT AND CENTRAL NERVOUS SYSTEM (CNS) DISORDERS.

Based on a business strategy to expand the clinical utility and commercial value of marketed and/or existing compounds, QRxPharma's product portfolio includes both late and early stage clinical drug candidates with well-defined paths to regulatory approval and sales. The Company intends to directly commercialise its products in the US and seek strategic partnerships as required to accelerate market penetration. QRxPharma's lead compound, Q8003IR, completed initial Phase 3 studies in April 2008, having met all primary and secondary endpoints. The Company's preclinical and clinical pipeline includes other technologies in the fields of pain management, neurodegenerative disease and venomics.

QRxPHARMA LIMITED
ABN 16 102 254 151

CORPORATE DIRECTORY

Directors	Peter C Farrell PhD, ScD, AM, *Non Executive Chairman* John W Holaday PhD, *Managing Director and Chief Executive Officer* R Peter Campbell FCA, FTIA Gary W Pace PhD Michael A Quinn MBA
Secretary	Chris J Campbell CA
Notice of annual general meeting	The annual general meeting of QRxPharma Limited will be held on 4 November 2008 at the Grace Hotel, 77 York Street, Sydney, commencing at 10.00 am
Principal registered office in Australia	QRxPharma Limited Level 1 194 Miller St North Sydney NSW 2060
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000
Auditor	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street GPO BOX 2650 Sydney NSW 1171
Solicitors	Dibbs Abbott Stillman Level 8, Angel Place 123 Pitt Street Sydney NSW 2000
Stock exchange listings	QRxPharma Limited shares are listed on the Australian Securities Exchange. Listing Code: QRX QRxPharma Limited American Depositary Receipts are listed on the OTCQX. Symbol: QRXPY
Website address	www.qrxpharma.com

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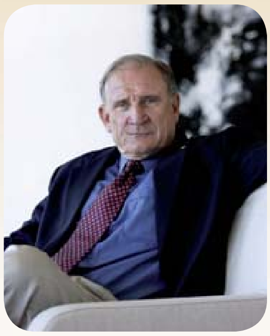
LETTER FROM THE CHAIRMAN

Dear Shareholders,



Over the past year, QRxPharma has made significant progress, having achieved our projected clinical development goals for Q8003IR, the Company's lead product candidate for the acute treatment of moderate to severe pain. Our successful completion of initial Phase 3 studies in May 2008 was ahead of schedule, and this accomplishment not only demonstrates the Company's ability to deliver on its development milestones, but also represents the realisation of significant steps toward commercialising a first-in-class "dual-opioid®" pain therapy.

Although opioids such as morphine have been administered to patients to relieve pain for over two centuries, these drugs are fraught with severe side effects which often limit their clinical use. As preclinical and clinical data demonstrate, our patented dual-opioid® technology – a unique, fixed-ratio morphine and oxycodone product - provides superior pain relief while minimising side effects. Our products target both the acute and chronic pain markets (a $12 billion global market place) and include an immediate release formulation (Q8003IR), a continuous release formulation (Q8011CR) and an intravenous formulation (Q8012IV). QRxPharma's portfolio of dual-opioids® will provide pain physicians with diverse doses and formulations that can be tailored to the patient's needs for more effective pain relief, while minimising side effects.

To translate clinical progress into greater shareholder value, we remain focused on commercialising Q8003IR. In mid-2007, QRxPharma initiated the manufacturing of 4 capsule strengths for use in clinical trials. In November, 2007, Phase 3 studies commenced with the primary objective of determining preferred dose parameters for pain relief in post-surgical patients (secondary objectives included patient ratings and side effect profiles). In May 2008, we successfully completed these initial Phase 3 studies, having achieved statistical significance for all primary and secondary trial endpoints, including a dose-related increase in pain relief, with few medically significant side effects. These studies further established a 12mg/8mg morphine and oxycodone combination of Q8003IR as the preferred dose for optimal pain relief and tolerability, with rapid onset and a duration of action of over six hours.

A year of development activity for Q8003IR concluded with a United States Food and Drug Administration (FDA) meeting in July 2008 where we reviewed our clinical data (including efficacy, safety, side effects and tolerability) as well as assessed the sufficiency of planned clinical trials for New Drug Application (NDA) submission, the final step before commercialisation. Pending incorporation of the FDA's recommended modifications, only two additional Phase 3 trials will be required for NDA filing. Under this streamlined clinical development programme, no additional pharmacology, toxicology or long-term clinical safety studies are deemed necessary for regulatory submission. The Company is however considering additional studies to generate data that will enhance market entry.

Acceptance of our Q8003IR proposed Phase 3 development plan by the FDA is a measure of success in terms of reduced risk, improved resource efficiencies and de facto endorsement of the potential value of dual-opioids®. We believe the FDA meeting outcome serves to reinforce the soundness of our business strategy – to expand the clinical utility of existing compounds as well as deliver new treatments for targeted indications, with well-defined paths to regulatory approval, and sales to broad specialty markets.

We also continue our close association with both the University of Alabama and the University of Queensland by advancing our preclinical pipeline in the areas of neurodegenerative disease and venomics, respectively.

Market conditions have not been favourable to our share price over the past year. Although we have maintained a stable base of institutional and retail shareholders during this declining market, there is a clear need to broaden the Company's shareholder base in order to recognise the value of our growing assets. To that end, with JP Morgan, QRxPharma initiated an American Depository Receipt programme for US listing, and then recently joined the OTCQX (QRXPY) with the help of our Principal American Liaison, Merriman Curhan and Ford. This relationship includes informational road shows, analyst coverage and market making, which will afford us broad access to the US market to facilitate US investment in QRxPharma.

I am proud of what we have accomplished during our first year of public ownership. In the coming year, we will conserve cash resources to ensure a strong financial footing and continue our comprehensive clinical trial programme. In addition, we plan to extend our intellectual property protection in order to enhance the market value of our product portfolio; we will also add global shareholders as well as emphasise business development to establish appropriate strategic partnerships to accelerate product commercialisation.

We thank you for your continued support.

Yours sincerely,

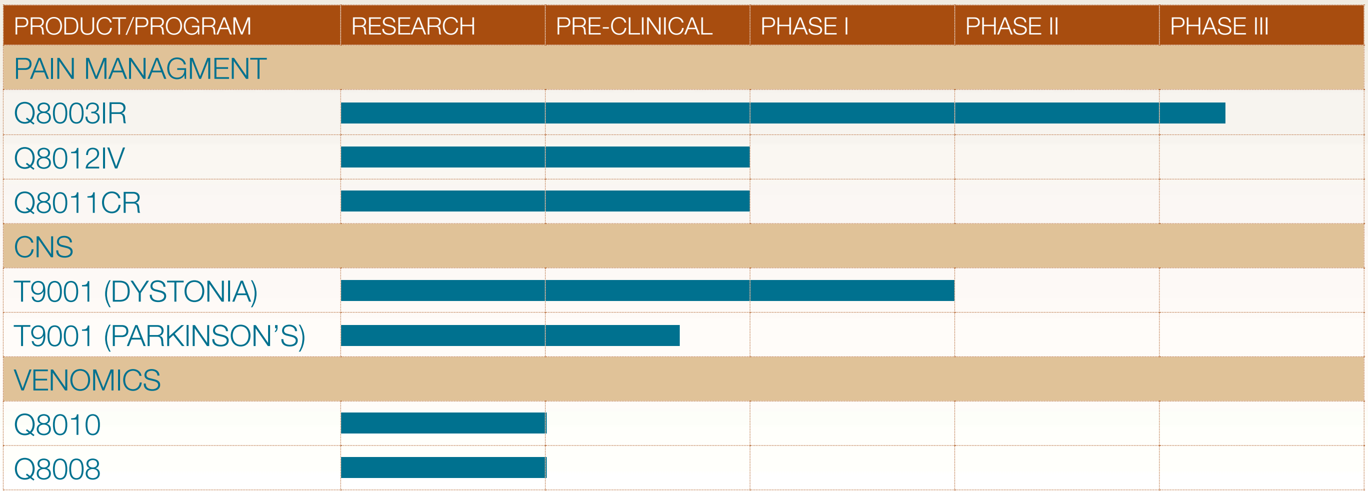
Peter C Farrell, PhD, ScD, AM

Chairman

CEO REVIEW

Little more than a year ago, QRxPharma had only recently completed its initial public offering (IPO) and listing on the Australian Securities Exchange (ASX), full of promise with respect to the Company's preclinical and clinical pipeline, with emphasis on the field of pain management. We are pleased to report significant progress in the Phase 3 clinical trial programme of our lead compound Q8003IR, and the continued progression of other development projects. This has been achieved whilst still retaining $29.7 million in cash reserves at 30 June 2008.

PRODUCT PIPELINE



PAIN MANAGEMENT

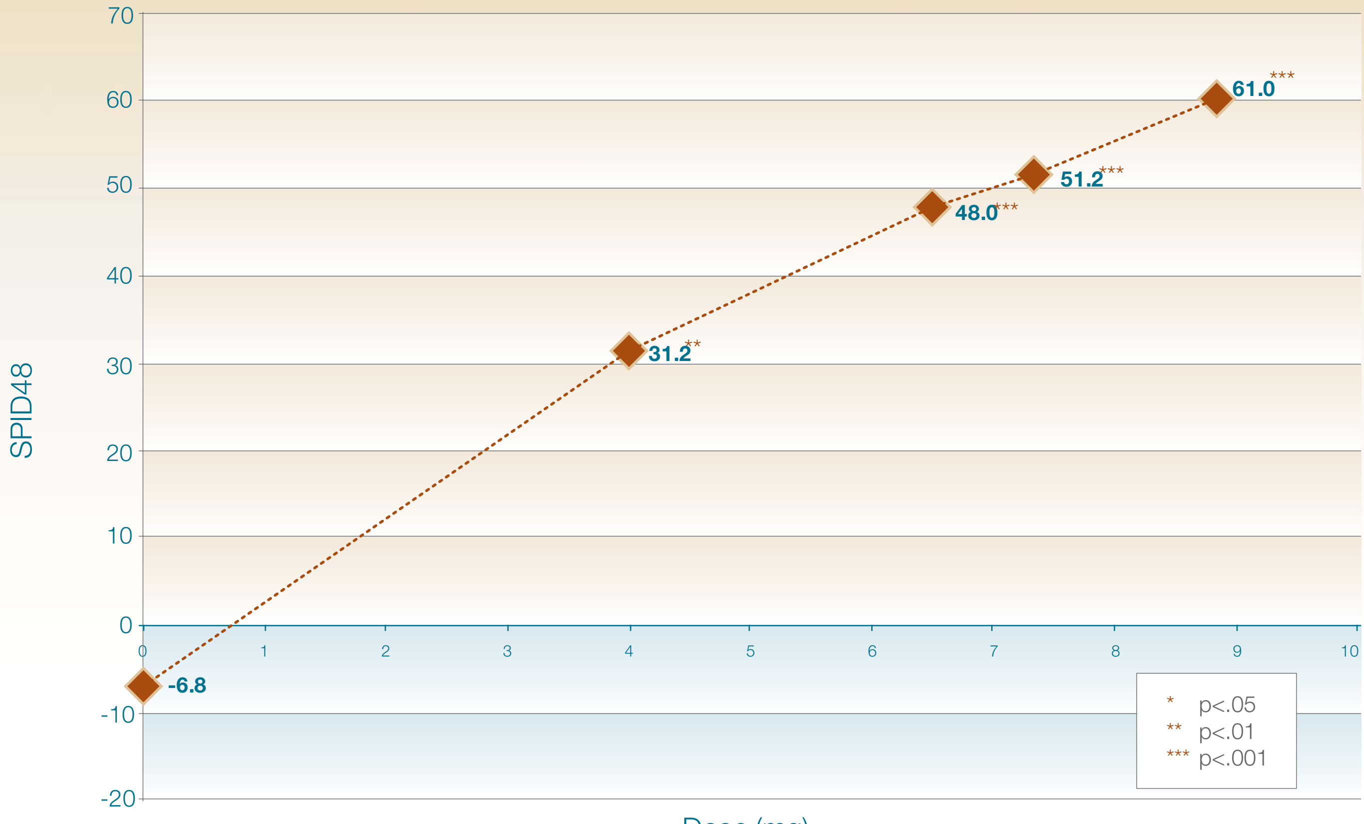
In November 2007, we initiated Phase 3 clinical trials for Q8003IR, the Company's lead product candidate and most advanced asset, a patent-protected dual-opioid® immediate release formulation of morphine and oxycodone for the treatment of moderate to severe acute pain. The goal of this double blind, placebo controlled study was to compare four different dosage regimens of Q8003IR in patients with moderate to severe post-surgery pain (bunionectomy) and to establish the preferred dose parameters. Secondary endpoints of the study included: (i) efficacy relating to the time to onset of analgesia and the duration of effect and (ii) safety as measured by the incidence and intensity of opioid-related adverse events. Completed ahead of schedule in May 2008, the study was conducted with 256 patients at six clinical research sites across the United States of America (US).

It is rare that all primary and secondary endpoints are met in Phase 3 studies. QRxPharma achieved this milestone, thus reinforcing the potential clinical benefit and commercial value of its dual-opioid® product portfolio. Initial Q8003IR Phase 3 efficacy data demonstrated statistically significant analgesic activity at all dose levels, with the 12mg/8mg (morphine-oxycodone) dose delivering the best analgesic effect and tolerability profile.

Although morphine and oxycodone are treatment mainstays for moderate to severe pain, side effects such as nausea, sedation, constipation, and respiratory depression limit their use. In our initial Q8003IR Phase 3 studies, very few severe adverse effects were observed. In particular, no respiratory depression and minimal somnolence were seen, as well as the absence of euphoria. These were unexpected outcomes compared to what is typical with morphine or oxycodone at comparable pain relieving doses following surgery. Such data suggests that our dual-opioids® may provide synergistic effects on pain relief with equal or better analgesia at materially lower doses than the active opioid comparator while simultaneously reducing the incidence of side effects.

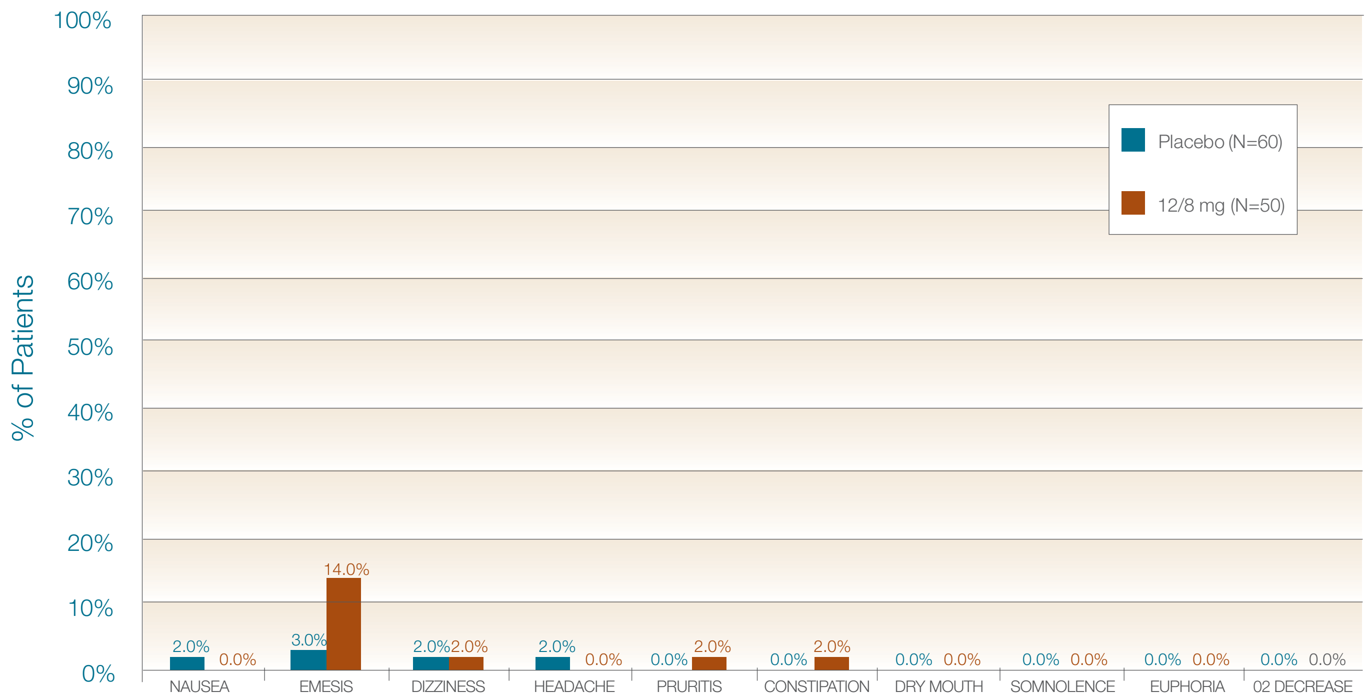
In July 2008, QRxPharma met with the US Food and Drug Administration (FDA) to review proposed Phase 3 protocol designs for the remaining trials. Pending incorporation of the FDA's recommended modifications, only two further Phase 3 trials will be required for filing of a New Drug application (NDA), including a combination rule study in patients experiencing post-surgery (bunionectomy) pain and a placebo controlled study in patients following total knee replacement.

Q8003IR DOSE-RESPONSE EFFICACY



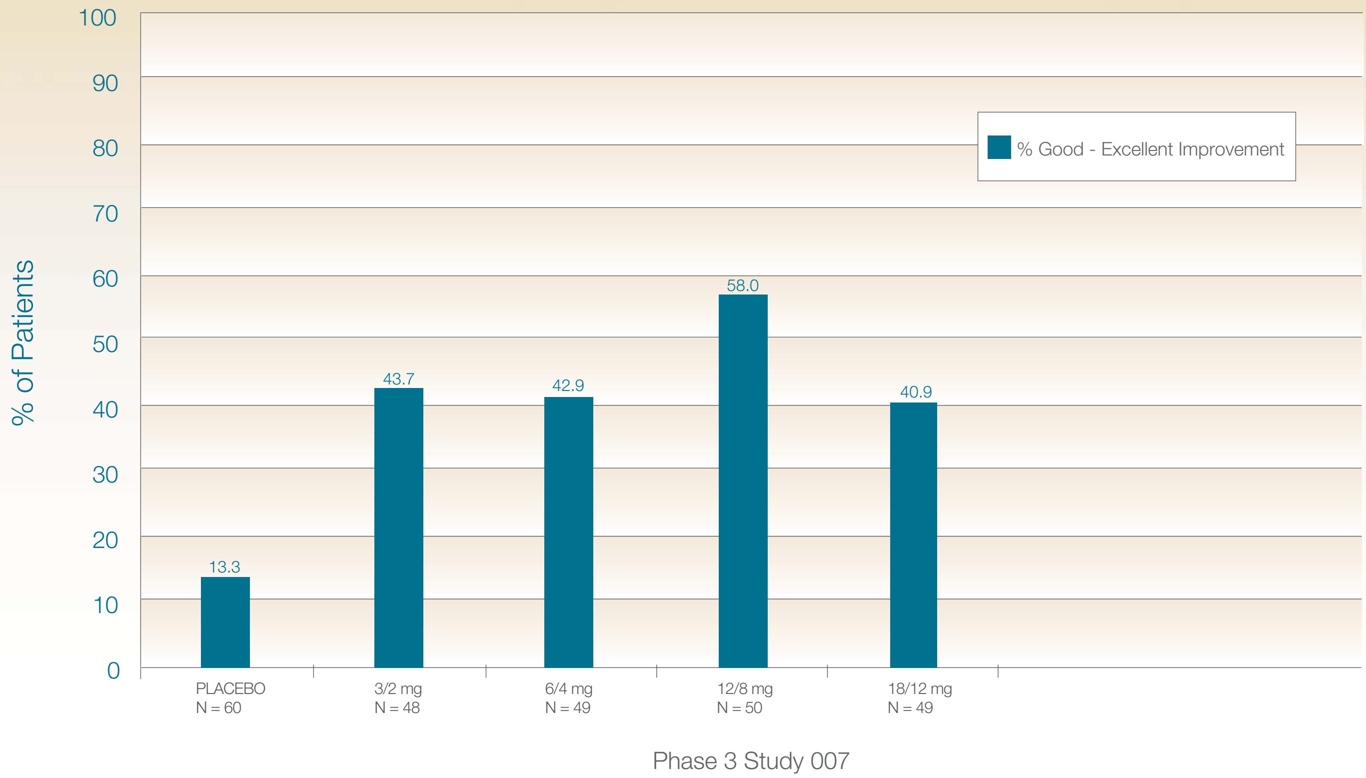
Phase 3 Study 007

Q8003IR SEVERE OPIOID ADVERSE EVENTS



Phase 3 Study 007

Q8003IR EFFICACY: PATIENT GLOBAL RATING



Under this streamlined clinical development programme, no additional animal pharmacology, toxicology or long-term clinical safety studies will be required for regulatory submission. Whilst discussions with the FDA have streamlined the regulatory process, it has also opened the door for the Company to reduce financial risk associated with our clinical trial program, with the opportunity to approach the FDA for a Special Protocol Assessment (SPA) which will minimise the risk of the FDA requiring further trials or requirements after presentation of our planned trial results. During the time of the SPA negotiation, the Company may initiate some additional marketing oriented trials, not previously planned, to strengthen both our labelling and marketing assets in preparation for NDA submission and launch as well as strategic partnering efforts.

The global market for pain therapies is large and well defined, particularly in the regulated and closely monitored moderate to severe pain sector. Q8011CR, a controlled-release dual-opioid® designed to provide 12 hours of pain relief in patients with moderate to severe chronic pain, is being formulated to initiate Phase I studies.

An intravenous (IV) dual-opioid® formulation for immediate, post-surgical treatment of hospital-based pain is proposed and will commence clinical trials in 2009. This product candidate broadens the scope of our dual-opioid® portfolio as it will be used in a peri-operative setting. Q8012IV represents an exciting addition to the Company's pain franchise as it is complementary to Q8003IR and Q8011CR, offering prescribing physicians broader and better treatment options than traditional opioids.

NEURODEGENERATIVE DISEASES

QRxPharma extends its product portfolio into neurodegenerative disorders with an exclusive worldwide license from the University of Alabama on the modulation of key proteins required for normal cellular function in the brain.The discovery relates to a molecule, "Torsin", that works within the cellular machinery to prevent the harmful protein missfolding that characterises neurologic disorders such as dystonia, Parkinson's Disease and Alzheimer's Disese. A family of small Torsin-activating molecules have been shown in preclinical models to prevent protein mutations and to ameliorate movement disorders by working at a causative level.

VENOMICS

Based on collaborations with the University of Queensland and the Queensland Institute for Medical Research to identify and characterise proteins and peptides from Australian snake venoms, QRxPharma has also developed a unique drug discovery platform for therapies in coagulation and blood homeostasis. Venoms from some of the world's deadliest snakes have proved a fertile area for the discovery of novel proteins and peptides with significant therapeutic potential. QRxPharma owns intellectual property assets derived from this research, including two preclinical drug candidates in the area of haemostasis, as well as a deep pipeline of earlier stage candidates in haemostasis, anti-coagulation and other diverse therapeutic areas.

SUMMARY

To support these developments, QRxPharma established a presence in New Jersey, US. The Company has recruited a specialised staff of outstanding pharmaceutical industry veterans in clinical and commercial development who complement existing management. Key appointments of Vice President, Commercialisation; Vice President, Operations; Senior Vice President, Clinical Research; and Senior Director, Regulatory Affairs have been completed. This team has been instrumental in completing the initial Phase 3 study of Q8003IR ahead of schedule in May 2008.

QRxPharma's global Scientific Advisory Board (SAB) comprises internationally recognised leaders in the fields of pain therapy, central nervous system drug discovery, pharmaceutical development, regulatory approvals and product commercialisation. Our SAB, chaired by Dr. Solomon Snyder, was strengthened during the year with the appointments of Dr. Lester Crawford, former Commissioner of the FDA, and Dr. Gavril Pasternak, a world authority on opioid drugs. Counsel from members of the SAB have been of great assistance to QRxPharma particularly in dealings with the FDA, as the Company strives to bring to market a product portfolio of late and early stage clinical candidates with abbreviated development programmes and improved patient outcomes.

QRxPharma is sharply focused on the advancement of its preclinical and clinical pipeline, emphasising product development in the field of pain management. As clinical trials progress with associated expenditures and reported losses, we will enhance the market value of our pain portfolio. QRxPharma retains the funds necessary to meet these commitments throughout the year ahead. We have aligned the Company's development strategy with a concerted effort to broaden our shareholder base and establish strategic partnerships that drive value and enable QRxPharma to address larger markets in a global environment. I am very proud of the achievements of the Company throughout this past year and I am confident that the Company will continue to focus resources and efforts to achieve our goals in 2009.

Yours sincerely,

John W Holaday, PhD
Managing Director and Chief Executive Officer

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of QRxPharma Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2008.

DIRECTORS

The following persons were directors of QRxPharma Limited during the whole of the financial year and up to the date of this report:

Peter C Farrell

R Peter Campbell

Gary W Pace

Michael A Quinn

John W Holaday

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of the development and commercialisation of biopharmaceutical products based on largely Australian research, targeting the US market.

DIVIDENDS - QRXPHARMA LIMITED

No dividends were paid or declared since the start of the financial year (2007: $nil).

REVIEW OF OPERATIONS

The Group has made a loss from ordinary activities after income tax for the year of $36.6 million (2007: loss of $0.4 million).This result includes non cash charges of $18.1 million relating to an impairment charge to the Torsin intellectual property (Torsin IP) of $14.6 million and share-based payments expenses of $3.5 million. The Torsin IP is represented by an exclusive worldwide license from the University of Alabama of certain technology relating to the treatment of central nervous system disorders and other related diseases. Excluding these charges the loss was in line with expectations in fulfilling research and development efforts, in the progression of the Company's clincial pipeline candidates and preclinical stage drugs. The Company continues to closely manage its cash position as it progresses the dual opioid Q8003IR Phase 3 development programme, and retains $29.7 million in cash reserves at 30 June 2008.

The impairment charge of $14.6 million (2007: $nil) associated with the Torsin IP was made in accordance with Accounting Standard AASB 136 "Impairment of Assets" which requires the assessment of the Torsin IP for impairment on an annual basis. The ability of an intangible asset such as the Torsin IP to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty before the asset is capable of generating cash flows. Whilst the Company has supported with limited funding the enhancement of the Torsin IP, the decision of the Company to focus on pain assets implies the Torsin IP could not currently generate cash flow other than from the out-license or sale of the asset. As no contracts have been negotiated for the out-license or sale of the Torsin IP, the Company has fully impaired the carrying value of the asset at 30 June 2008 being $14.6 million pursuant to the requirements of AASB136.

Apart from its development activities, the Company also initiated a Level 1 American Depositary Receipt programme, listed on the International OTCQX, and trading began on 30 June 2008 on the International PrimeQX under the ticker QRXPY.

Further information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 4-7 of this annual report.

LOSS PER SHARE

	2008 Cents	2007 Cents
(a) Basic loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the company	**(48.8)**	(2.8)
(b) Diluted loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the company	**(48.8)**	(2.8)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the state of affairs of the Group were noted during the financial year that have not otherwise been disclosed in this report or in the financial statements.

USE OF FUNDS

Expenditure for the year ended 30 June 2008 is reflective of the Company's successful IPO in May 2007 and the resultant initiation of its Phase 3 clinical trial program for its lead compound, Q8003IR as well as the continued progression of earlier stage pipeline candidates, in accordance with the Prospectus dated 27 April 2007.

During the financial year ended 30 June 2007, the Group had entered into a series of foreign exchange put option contracts at an exchange rate between Australian dollars and US dollars of AUD1.00 to USD0.8181 to protect against adverse foreign exchange movements between AUD and USD. The option contracts were to cover anticipated expenditure of at least $29 million over 2 years to fulfil research and development expenditure associated with clinical trials to be conducted in the United States of America (US). The Prospectus issued by the Company on 27 April, 2007 assumed an exchange rate between Australian dollars and US dollars of AUD1.00 to USD0.78. During the year the Group converted AUD20 million to USD at an average rate of USD0.9027, taking advantage of the more favourable rates above the option contracts.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

There are no particular and significant environmental regulations under a law of the Commonwealth or of a State or Territory of Australia affecting the Group.

INFORMATION ON DIRECTORS

Peter C Farrell PhD, ScD, AM. *Non Executive Chairman.*

Experience and expertise

Dr Farrell has over 30 years executive and consulting experience in the medical device industry.

Dr Farrell is a Fellow of several professional bodies, including the Australian Institutes of Management and Company Directors. He is the Vice Chair of the Executive Council of the Division of Sleep Medicine at Harvard Medical School, he serves on the Board of Trustees of University of California, San Diego (UCSD) and is on the Health Sciences Advisory Board of the Dean of Medicine and the Advisory Board of UCSD's Jacobs School of Engineering. Dr Farrell is also a Visiting Professor at the University of New South Wales Graduate School for Biomedical Engineering, of which he was founding Director in 1978.

In 1994, the Australian Institution of Engineers awarded Dr Farrell the honour of National Professional Engineer of the Year and, in 1997, he received the David Dewhurst Award (Biomedical Engineer of the Year) from the same institution. He was also named San Diego Entrepreneur of the Year for Health Sciences in 1998, Australian Entrepreneur of the Year for 2001, and US National Entrepreneur of the Year for Health Sciences for 2005. Dr Farrell was admitted to membership of the Order of Australia in 2004. He holds Bachelors and Masters degrees in chemical engineering from the University of Sydney and the Massachusetts Institute of Technology (MIT) respectively, a PhD in bioengineering from the University of Washington in Seattle, and a ScD from the University of New South Wales for research related to dialysis and renal medicine.

Other current directorships

Dr Farrell is the Chairman of ResMed Inc (ASX and NYSE: RMD), which he founded in 1989. He is also a Director of Pharmaxis Limited (ASX: PXS) (director since March 2006) and Nuvasive Inc (NASDAQ: NUVA) (director since January 2005) serving on the nominations and governance committees.

Former directorships in last 3 years

Nil.

Special responsibilities

Chairman of the Board.

Chairman of nominations committee.

Chairman of remuneration committee.

Interests in shares and options

1,280,540 ordinary shares and 604,089 options over ordinary shares.

John W Holaday PhD. *Managing Director and Chief Executive Officer.*

Experience and expertise

Dr Holaday brings four decades of experience as a scientist, founder and executive manager of biotechnology and biopharmaceutical companies, and as a banker. Dr Holaday has extensive experience in building publicly traded specialty pharmaceutical companies. In 1992, Dr Holaday was a co-founder of EntreMed Inc (NASDAQ: ENMD), of which he served as President, Chief Executive Officer, and Chairman of the Board. In 1988, Dr Holaday also co-founded Medicis Pharmaceutical Corporation (NYSE: MRX), where he served as a Board Director, as Scientific Director, and as Senior Vice President for Research and Development. Dr Holaday also founded MaxCyte Inc, a cell therapy company, where he served as Chairman until retiring in 2003. He founded HarVest Bank of Maryland in 2004, served as Chairman until 2006 and remains on the Board. Dr Holaday was founder, Chairman and Chief Executive Officer of CNSCo, Inc, a private company which was acquired by the Group on 26 April 2007.

Dr Holaday currently serves as an officer and Fellow in several biomedical societies, has authored and edited over 200 scientific articles in journals and books, and holds over 30 patents. He served as Chairman of the Maryland BioAlliance, is a Judge for the Ernst and Young Entrepreneur of the Year Award (2003 to present) and was named to the Ernst and Young Entrepreneur of the Year Hall of Fame in 2006. Dr. Holaday served as a Captain, US Army, until 1972, and as managing founder of the Neuropharmacology Branch at the Walter Reed Army Institute of Research until 1988. Dr Holaday was formerly an Associate Professor of Anaesthesiology and Critical Care Medicine and Senior

Lecturer in Medicine at The Johns Hopkins University of Medicine and remains as Adjunct Professor of Psychiatry at the Uniformed Services University School of Medicine, Bethesda, Maryland. Dr Holaday obtained his Doctorate in Pharmacology at the University of California, San Francisco in 1977.

Other current directorships

Nil

Former directorships in last 3 years

Nil

Special responsibilities

Managing Director and Chief Executive Officer.

President of QRxPharma, Inc.

Member of remuneration committee.

Interests in shares and options

7,543,000 ordinary shares (including ordinary shares held by John Holaday and John Holaday as trustee for the John Holaday Foundation) and 805,452 options over ordinary shares.

R Peter Campbell FCA, FTIA. *Non Executive Director.*

Experience and expertise

Mr Campbell is a Chartered Accountant and company Director with more than 35 years of business consulting and advisory experience, and operates his own chartered accountancy practice based in Sydney. He is a fellow of both the Institute of Chartered Accountants in Australia and the Taxation Institute of Australia and is a registered company auditor.

Other current directorships

Director and Chair of the audit committees of Silex Systems Limited (ASX: SLX) (director since July 1996), Sonic Healthcare Limited (ASX: SHL) (director since January 1993), and Admerex Limited (ASX: ADL) (director since January 2007).

Former directorships in last 3 years

Non executive director of SciGen Limited (ASX: SIE) from August 1999 to February 2005.

Special responsibilities

Chairman of audit and risk committee.

Member of nominations committee.

Interests in shares and options

85,000 ordinary shares and 241,635 options over ordinary shares.

Gary W Pace PhD *Non-Executive Director and Consultant.*

Experience and expertise

Dr Pace is a co founder of QRxPharma Limited and continues to work with the Group.

Dr Pace is a seasoned biopharmaceutical executive with over 30 years of experience in the industry. He has co founded a number of early stage life science companies where he built products from the laboratory to commercialisation.

Dr Pace is an elected Fellow of the Australian Academy of Technological Sciences and Engineering, author and co author of over 50 research papers, reviews and patents. In 2003, Dr Pace was awarded a Centenary Medal by the Australian Government for service to Australian society in research and development. Dr Pace holds a Bachelor of Science (Honours) from the University of New South Wales and a PhD from Massachusetts Institute of Technology, where he was a Fulbright Scholar.

Other current directorships

Director of ResMed Inc (ASX and NYSE: RMD) (since 1995), Transition Therapeutics Inc (TSX and NASDAQ: TTH;) (since 2002), Celsion Corp (AMX: CLN) (since 2002) and Peplin Limited (ASX: PEP) (since June 2004).

Former directorships in last 3 years

Resonance Health Limited (ASX: RHT) (April 2006 to August 2007)

Special responsibilities

Nil

Interests in shares and options

3,230,083 ordinary shares and 402,726 options over ordinary shares.

Michael A Quinn MBA. *Non-Executive Director.*

Experience and expertise

Mr Quinn is managing partner of Innovation Capital and has more than 30 years executive experience in technology companies in Australia, the US and the UK. Mr Quinn holds a Bachelor of Science, a Bachelor of Economics, and an MBA from Harvard. Mr Quinn is Chairman of the New South Wales Entrepreneurship Centre Limited, a not-for-profit organisation that trains entrepreneurs. In 1983 he co-founded Memtec Limited (NYSE and ASX), and has also served as Chief Executive Officer of an ASX listed manufacturer and distributor of health care and scientific products. Mr Quinn has been a Director of several listed companies in Australia, the US and the UK and numerous unlisted life science and other technology based companies.

Other current directorships

Director of ResMed Inc (ASX and NYSE: RMD) (director since 1992) where he chairs the audit committee and Chairman of CAP XX Limited (AIM: CPX) (director since November 1998).

Mr Quinn is co-founder and Chairman of Innovation Capital, an Australian and US venture fund, which is a foundation shareholder of the Company.

Former directorships in last 3 years

Nil.

Special responsibilities

Member of nominations committee.

Member of audit and risk committee.

Member of remuneration committee.

Interests in shares and options

9,471,749 ordinary shares (including ordinary shares held by Innovation Capital Limited, Innovation Capital LLC, Innovation Capital QRx Trust, Innovation Capital QRx II Trust and Kaylara Pty Limited). 402,726 options over ordinary shares (including options held by Innovation Capital Limited and Innovation Capital LLC).

COMPANY SECRETARY

Chris J Campbell holds a Bachelor of Commerce and is an Associate of the Institute of Chartered Accountants in Australia. He also holds the position of Chief Financial Officer of QRxPharma Limited. He has over 25 years experience with major accounting firms and as CFO of publicly traded companies.

Terrence F Sayer also held the office of Company Secretary from the beginning of the financial year until his resignation on 6 February 2008.

MEETINGS OF DIRECTORS

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2008, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of non-executive directors		Meetings of committees					
					Audit and risk		Nominations		Remuneration	
	A	B	A	B	A	B	A	B	A	B
Peter C Farrell	5	5	5	5	**		1	1	2	2
John W Holaday*	5	5			**		**		2	2
R Peter Campbell	4	5	4	5	3	3	1	1	**	
Gary W Pace	5	5	3	3	**		**		**	
Michael A Quinn	5	5	5	5	3	3	1	1	2	2

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
* = Not a non executive director
** = Not a member of the relevant committee

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation

E Additional information.

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

A Principles used to determine the nature and amount of remuneration (audited)

As a company building a speciality pharmaceutical business to compete internationally, QRxPharma Limited requires a board and senior management team that have both the technical capability and relevant business experience to execute the Group's strategy.

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency

The Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- focuses on sustained growth in share price as well as focusing the executive on key non financial drivers of value
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides recognition for contribution.

The framework provides a blend of fixed pay, and short and long term incentives.

The board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non executive directors. The Corporate Governance Statement provides further information on the role of this committee.

Non-executive directors

Fees and payments to non executive directors reflect the demands which are made on, and the responsibilities of, the directors. The fees were set on 27 April 2007 ahead of the Company completing its initial public offering. There is an annual base fee payable six months in arrears, currently $60,000 for the Chairman and $40,000 for the other non executive directors (which also covers serving on a committee) and long term incentives through participation in the QRxPharma Limited Employee Share Option Plan.

Non executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $400,000 per annum and was approved by shareholders at the Annual General Meeting on 24 April 2007.

Executive pay

The executive pay and reward framework has three components:

- base pay and benefits, including superannuation
- short term performance incentives, and
- long term incentives through participation in the QRxPharma Limited Employee Share Option Plan.

The combination of these comprises the executive's total remuneration.

Base pay

Structured as a total employment package which may be delivered as a combination of cash and prescribed non financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually and every two years a market survey is conducted to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contracts.

Benefits

Executives receive benefits including health insurance and tax advisory services.

Superannuation

The Group does not maintain a Group superannuation plan. The Group makes fixed percentage contributions for Australian resident employees to complying third party superannuation funds and for US resident employees to complying pension plans.

Short term incentives

A variable cash incentive component is payable annually dependant upon achievement of performance targets. Individual performance targets are set by reference to components of the Group's business plan for which the individual executive is responsible.

Long term incentives

Long term incentives are provided to certain employees through participation in the QRxPharma Limited Employee Share Option Plan.

B Details of remuneration (audited)

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of QRxPharma Limited and the Group are set out in the following tables.

The key management personnel of QRxPharma Limited and the Group includes the directors as per pages 10 to 12 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the Group, who are also the highest paid executives of the entity:

- Warren C Stern, PhD – Executive Vice President, Drug Development
- Chris J Campbell – Chief Financial Officer and Company Secretary
- Douglas A Saltel – Chief Operating Officer (resigned 7 March 2008)
- Joseph J Berry – VP Operations (from 12 November 2007)
- Philip J Magistro – VP Commercial Operations (from 26 November 2007)
- Patricia T Richards, MD – Senior VP Clinical Research (from 18 February 2008)

Key management personnel and other executives of QRxPharma Limited and the Group are the same

2008	Short-term employee benefits				Post-employment benefits		Long-term benefits		
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Other $	Super-annuation $	Retirement benefits $	Long	Options $	Total $
Non executive directors									
Peter C Farrell	60,000	-	-	-	-	-	-	296,083	356,083
R Peter Campbell	40,000	-	-	-	3,600	-	-	118,433	162,033
Michael A Quinn	40,000	-	-	-	-	-	-	197,388	237,388
Gary W Pace	59,765	-	-	-	-	-	-	278,241	338,006
Sub-total non-executive directors	**199,765**	**-**	**-**	**-**	**3,600**			**890,145**	**1,093,510**
Executive directors									
John W Holaday	350,000	146,250	-	-	-	-	-	556,482	1,052,732
Other key management personnel (Group)									
Douglas A Saltel	208,788	56,744	-	-	-	-		-	265,532
(resigned 7 March 2008)									
Warren C Stern ^	227,665	90,879		-	-	-		556,482	875,026
Chris J Campbell ^	197,248	75,000	-	-	24,502	-		228,017	524,767
Joseph J Berry ^	150,550	70,458	-	-	-	-		32,598	253,606
(appointed 12 November 2007)			-						
Philip J Magistro ^	147,684	73,528		-	-	-		43,463	264,675
(appointed 26 November 2007)			-						
Patricia T Richards ^	99,533	29,860		-	-	-		54,026	183,419
(appointed 18 February 2008)			-						
Total key management personnel compensation (Group)	**1,581,233**	**542,719**	**-**	**-**	**28,102**	**-**	**-**	**2,361,213**	**4,513,267**
Other Group executives									
Terrence F Sayer (Company Secretary) *(resigned 6 February 2008)*	-	-	-	-	-	-	-	-	-

^ denotes one of the highest paid executives of the company, as required to be disclosed under the *Corporations Act 2001*.

Gary Pace was paid $239,443 for consulting services provided to the Company during the year, after ceasing as an employee on 30 September 2007.

Terrence F Sayer was paid $53,120 for Accounting and Office Services and Company Secretarial duties provided to the Company during the year.

Key management personnel and other executives of QRxPharma Limited and the Group were the same in 2007

2007	Short-term employee benefits				Post-employment benefits		Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Other $	Super-annuation $	Retirement benefits $	Long service leave $	Options $	Total $
Non executive directors									
Peter C Farrell	10,000	-	-	-	-	-	-	8,723	18,723
R Peter Campbell	6,667	-	-	-	-	-	-	3,489	10,156
Michael A Quinn	6,667	-	-	-	-	-	-	5,815	12,482
David Stack *(resigned 27 April 2007)*	-	-	-	-	-	-	-	23,215	23,215
Michael S Hirshorn *(resigned 27 April 2007)*	-	-	-	-	-	-	-	-	-
George Savage *(resigned 27 April 2007)*	-	-	-	-	-	-	-	-	-
David A Henderson *(resigned 27 April 2007)*	-	-	-	-	-	-	-	-	-
Sub-total non-executive directors	**23,334**	**-**	**-**	**-**	**-**	**-**	**-**	**41,242**	**64,576**
Executive directors									
John W Holaday	79,295	-	-	-	-	-	-	29,076	108,371
Gary W Pace	97,209	58,977	-	-	-	-	-	25,291	181,477
Other key management personnel (Group)									
Douglas A Saltel ^	72,086	-	-	-	-	-	-	29,076	101,162
Warren C Stern ^	51,173	-	-	-	-	-	-	29,076	80,249
Felix de la Iglesia *(resigned 25 May 2007)*	-	-	-	-	-	-	-	-	-
Chris J Campbell ^	63,651	-	-	-	8,327	-	-	17,446	89,424
B Nicholas Harvey ^ *(resigned 1 March 2007)*	-	-	-	-	-	-	-	-	-
Total key management personnel compensation (Group)	**386,748**	**58,977**	**-**	**-**	**8,327**	**-**	**-**	**171,207**	**625,259**
Other Group executives									
Terrence F Sayer (Company Secretary)	-	-	-	-	-	-	-	-	-

^ denotes one of the highest paid executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

Felix de la Iglesia was paid $264,830 for consulting services provided to the Group during the year.

B Nicholas Harvey was paid $52,386 for consulting services provided to the Group during the year.

Terrence F Sayer was paid $83,373 for Accounting and Office Services and Company Secretarial duties provided to the Company during the year.

David Stack was paid $4,500 for consulting services provided to the Group during the year.

Key management personnel and other executives of the Group

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	**2008**	2007	**2008**	2007	**2008**	2007
Directors of QRxPharma Limited						
John W Holaday	86%	100%	14%	-	-	-
Peter C Farrell	100%	100%	-	-	-	-
R Peter Campbell	100%	100%	-	-	-	-
Michael A Quinn	100%	100%	-	-	-	-
Gary W Pace	100%	62%	-	38%	-	-
David Stack *(resigned 27 April 2007)*	-	100%	-	-	-	-
Other key management personnel of the Group						
Douglas A Saltel *(resigned 7 March 2008)*	79%	100%	21%	-	-	-
Warren C Stern	90%	100%	10%	-	-	-
Chris J Campbell	86%	100%	14%	-	-	-
Joseph J Berry *(appointed 12 November 2007)*	72%	-	28%	-	-	-
Philip J Magistro *(appointed 26 November 2007)*	72%	-	28%	-	-	-
Patricia T Richards *(appointed 18 February 2008)*	84%	-	16%	-	-	-
Felix de la Iglesia *(resigned 25 May 2007)*	-	100%	-	-	-	-
B Nicholas Harvey *(resigned 1 March 2007)*	-	100%	-	-	-	-

C Service agreements (audited)

On appointment to the board, all non executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of employment for the Managing Director and Chief Executive Officer and the other Key Management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance related cash bonuses, other benefits including health insurance and tax advisory services, and participation, when eligible, in the QRxPharma Limited Employee Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

John W Holaday, *Managing Director and Chief Executive Officer*

- Term of agreement – 2 years (with annual extension) commencing 14 April 2007.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2008 of $350,000, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the annual base salary and a bonus component of $150,000.

Warren C Stern, *Executive Vice President Drug Development*

- Term of agreement – 3 years (with annual extension) commencing 14 April 2007.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2008 of US$250,000 to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the annual base salary and a bonus component of US$100,000.

Joseph J Berry, *Vice President Operations*

- Term of agreement – ongoing, commencing 12 November 2007.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2008 of US$215,000 (pro rata from commencement date), to be reviewed annually by the remuneration committee.

Philip J Magistro, *Vice President Commercialisation*

- Term of agreement – ongoing commencing 26 November 2007.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2008 of US$225,000 (pro rata from commencement date), to be reviewed annually by the remuneration committee.

Patricia T Richards, *Senior Vice President Clinical Research*

- Term of agreement – ongoing, commencing 18 February 2008.
- Base salary, inclusive of retirement or pension contribution, for the year ended 30 June 2008 of US$250,000 (pro rata from commencement date), to be reviewed annually by the remuneration committee.

Chris J Campbell, *Chief Financial Officer*

- Term of agreement – ongoing, commencing 1 March 2007.
- Base salary, inclusive of superannuation, for the year ended 30 June 2008 of $215,000, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination without notice by the Company, other than for gross misconduct, equal to 3 months salary.

Gary W Pace, *Non-Executive Director, Consultant*

- Term of agreement – 1 year, commencing 25 May 2008.
- Base consulting fee for the year ended 30 June 2009 of US$100,000 (pro rata).
- No termination benefit payable on early termination by the Company.

D Share-based compensation (audited)

Options

Options over shares in QRxPharma Limited are granted under the QRxPharma Limited Employee Share Option Plan (ESOP). The ESOP is designed to provide long term incentives for executives to deliver long term shareholder returns.

The maximum number of options available to be issued under the ESOP is 10% of diluted ordinary share capital in the Company as at the date of issue of the relevant options. All employees and directors are eligible to participate in the ESOP, but do so at the invitation of the Remuneration Committee. The term of option issues are determined by the Remuneration Committee.

Options are generally granted for no consideration and vest annually over 3 years in equal proportions with the initial vesting on the first anniversary of the date of grant. The exercise price is set by the Remuneration Committee but being not less than the market price of ordinary shares immediately prior to the grant date of the options.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Vested and exercisable	Expiry date	Exercise price	Value per option at grant date
31 March 2007	Over 3 years	31 March 2014	$1.42	$1.31
14 April 2007	Over 3 years	14 April 2014	$1.00	$1.46
25 May 2007	Over 3 years	25 May 2014	$1.00	$1.46
25 May 2007	Over 3 years	25 May 2014	$2.00	$1.15
1 September 2007	Over 3 years	1 September 2014	$1.70	$0.98
1 October 2007	Over 3 years	1 October 2014	$1.45	$0.83
9 October 2007	Over 3 years	9 October 2014	$1.34	$0.77
1 January 2008	Over 3 years	1 January 2015	$1.11	$0.64
1 April 2008	Over 3 years	1 April 2015	$1.05	$0.60
1 April 2008	Over 3 years	1 April 2015	$1.04	$0.60

The exercise price in respect of an option granted shall be the market price for a share prevailing at the time of grant unless the Board decides otherwise. Options will lapse if they are not exercised before the expiration date or if the option holder leaves the employment of the Group.

Details of options over ordinary shares in the company provided as remuneration to each director of QRxPharma Limited and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option is convertible into one ordinary share of QRxPharma Limited. Further information on the options is set out in note 28 to the financial statements.

	Number of options granted during the year		Number of options vested during the year	
Name	**2008**	2007	**2008**	2007
Directors of QRxPharma Limited				
Peter C Farrell	**-**	604,089	**201,363**	-
R Peter Campbell	**-**	241,635	**80,545**	-
Michael A Quinn	**-**	402,726	**134,242**	-
Gary W Pace	**-**	402,726	**134,242**	-
John W Holaday	**-**	805,452	**268,484**	-
Ronald M Cresswell *(resigned 10 February 2006)*	**-**	-	**-**	50,000
David Stack *(resigned 27 April 2007)*	**-**	-	**-**	180,000
Other key management personnel				
Douglas A Saltel *(resigned 7 March 2008)*	**-**	805,452	**-**	-
Warren C Stern	**-**	805.452	**268,484**	-
Chris J Campbell	**-**	402,726	**134,242**	-
Felix de la Inglesia *(resigned 25 May 2007)*	**-**	50,000	**-**	-
Joseph J Berry *(appointed 12 November 2007)*	**150,000**	-	**-**	-
Philip J Magistro *(appointed 26 November 2007)*	**200,000**	-	**-**	-
Patricia T Richards *(appointed 18 February 2008)*	**500,000**	-	**-**	-

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2008 included:

(a) Options are granted for no consideration and vest over 3 years (see page 20)

(b) Exercise price: $1.05 to $1.11 (2007: $0.15 to $2.00)

(c) Grant date: 1 January 2008 to 1 April 2008 (2007: 31 March 2007 to 25 May 2007)

(d) Expiry date: 1 January 2015 and 1 April 2015 (2007: 2014)

(e) Expected price volatility of the company's shares: 60% (2007: 60%)

(f) Expected dividend yield: nil% (2007: nil%)

(g) Risk free interest rate: 6.25% (2007: 6.25%).

Shares provided on exercise of remuneration options

Details of ordinary shares in the company provided as a result of the exercise of remuneration options to each director of QRxPharma Limited and other key management personnel of the Group are set out below.

Name	Date of exercise of options	**Number of ordinary shares issued on exercise of options during the year ***	
		2008	2007
Directors of QRxPharma Limited			
Gary W Pace	1 March 2007	-	207,096
Gary W Pace	25 April 2007**	-	71,689
David Stack (resigned 27 April 2007)	1 March 2007	-	447,096
David Stack (resigned 27 April 2007)	25 April 2007**	-	154,768
Ronald M Cresswell (resigned 10 February 2006)	25 April 2007	-	42,500
Other key management personnel of the Group			
Felix de la Iglesia (resigned 25 May 2007)	25 April 2007**	-	88,996
B Nicholas Harvey (resigned 1 March 2007)	25 May 2007	-	131,788

* Number of ordinary shares issued prior to compression of shares.

**The options exercised above carried anti dilution provisions which resulted in an uplift of shares issued on 25 April 2007. No amount was payable on these shares.

The amounts paid per ordinary share by each director and other key management personnel on the exercise of options at the date of exercise were as follows:

Exercise date	**Amount paid per share**
18 June 2006	$0.15
1 March 2007	$0.15
25 May 2007	$0.15

No amounts are unpaid on any shares issued on the exercise of options.

E Additional information unaudited

Share-based compensation: Options

	A	B	C	D	E
Name	Remuneration consisting of options	Value at grant date $	Value at exercise date $	Value at lapse date $	Total of columns B D $
Peter C Farrell	61.5%	541,514	-	-	541,514
R Peter Campbell	49.0%	216,605	-	-	216,605
Michael A Quinn	61.5%	361,009	-	-	361,009
John W Holaday	18.2%	1,049,039	-	-	1,049,039
Gary W Pace	58.0%	524,520	-	-	524,520
Douglas A Saltel	-	1,049,039	-	1,049,039	-
Warren C Stern	25.8%	1,049,039	-	-	1,049,039
Chris J Campbell	14.4%	444,784	-	-	444,784
Joseph Berry	4.8%	114,293	-	-	114,293
Philip Magistro	6.2%	152,390	-	-	152,390
Patricia Richards	12.5%	380,976	-	-	380,976

A = The percentage of the value of remuneration consisting of options, based on the value of options expenses during the current year.

B = The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Shares under option

Unissued ordinary shares of QRxPharma Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
31 March 2007	31 March 2014	$1.42	402,726
14 April 2007	14 April 2014	$1.00	2,013,630
25 May 2007	25 May 2014	$1.00	552,726
25 May 2007	25 May 2014	$2.00	1,448,450
25 May 2007	25 May 2010	$2.20	322,181
1 September 2007	1 September 2014	$1.70	50,000
1 October 2007	1 October 2014	$1.45	75,000
9 October 2007	9 October 2014	$1.34	50,000
1 January 2008	1 January 2015	$1.11	350,000
1 April 2008	1 April 2015	$1.05	600,000
1 April 2008	1 April 2015	$1.04	75,000
			5,939,713

Shares issued on the exercise of options

No ordinary shares have been issued during the year ended 30 June 2008 on the exercise of options granted under the QRxPharma Limited Employee Option Plan

INDEMNIFICATION

The Company has entered into Deeds of Access, Indemnity and Insurance with each of the directors and executive officers of the Group against all liabilities to another person (other then the Company or a related body corporate) that may arise from their position as directors and executive officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the amount of any such liabilities, including costs and expenses.

INSURANCE OF OFFICERS

The directors have not included details of the nature of liabilities covered nor the amount of the premium paid in respect to Directors and Officers liability insurance contracts, as such disclosure is prohibited under the terms of the contracts.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001.*

NON-AUDIT SERVICES

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

	Consolidated	
	2008	2007
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**86,000**	97,200
Total remuneration for audit services	**86,000**	97,200
2. Non audit services		
PricewaterhouseCoopers Australian firm:		
Audit related services	-	145,000
Taxation services	**99,270**	80,300
Total remuneration for non audit services	**99,270**	225,300

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 25.

ROUNDING OF AMOUNTS

The company is a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.

Peter C Farrell
Director

Sydney
25 August 2008

AUDITORS' INDEPENDENCE DECLARATION

PricewaterhouseCoopers

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of QRxPharma Limited for the year ended 30 June 2008 I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of QRxPharma Limited and the entities it controlled during the period.

Manoj Santiago
Partner
PricewaterhouseCoopers

Sydney
25 August 2008

Liability limited by a scheme approved under Professional Standards Legislation

CORPORATE GOVERNANCE STATEMENT

QRxPharma Limited (the Company) and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders and other key stakeholders in the Company. The Company and its controlled entities together are referred to as the Group in this statement.

The relationship between the board and senior management is critical to the Group's long term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

The role of the board is to provide strategic guidance and effective oversight of management. The directors are responsible for the overall direction, long term objectives and strategy, performance, compliance and policies. Day to day management of the Group's affairs inclusive of the implementation of the corporate objectives and strategy and compliance and policy initiatives are delegated by the board to the Managing Director and other senior management, with regular consultation between the Managing Director and the Chairman occurring on matters generally as they arise.

A description of the company's main corporate governance practices is set out below.

The Board of Directors

The board operates in accordance with the broad principles set out in its charter which is available from the corporate governance information section of the company website at www.qrxpharma.com. The charter details the board's composition and responsibilities.

Board composition

The charter states:

- the board is committed to ensuring that there will be a least five directors of whom a majority will be non executive directors. Non executive directors bring a fresh perspective to the board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management
- where possible the non executive directors be independent. This is in recognition of the importance of independent views and the board's role in supervising the activities of management and independent judgement in board decision making
- the board is also committed to ensuring that its members have a broad range of skills, experience and expertise. This will assist the board to maximise performance and ensure appropriate levels of shareholder return
- the board is required to undertake an annual review of its performance and Charter to ensure that it is operating effectively and in the best interests of the Group

Responsibilities

The board is ultimately responsible for the business and management of the Group and specific responsibilities of the board include:

- overseeing the business and strategic direction of the Group in order to maximise performance and generate appropriate levels of shareholder return
- ensuring that management establishes and follows an appropriate system of internal controls, risk management and legal compliance
- reviewing the performance and implementation of corporate strategies by senior management and ensuring senior management have the necessary resources to do so
- approving and supervising significant capital expenditure, capital management, acquisitions and divestments
- appointment, performance assessment and, if necessary, removal of the Chairman, Chief Executive Officer, Chief Financial Officer and the Company Secretary
- approving and monitoring annual budgets and strategic plans
- approving and monitoring financial and other reporting made to shareholders and the ASX under the continuous disclosure regime.

Board members

Details of the members of the board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading ''Information on directors''. There are four non executive directors, two of whom are deemed independent under the principles set out below, and one executive director at the date of signing the directors' report.

The board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the board is conducive to effective discussion and efficient decision making.

Directors' independence

The board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the company or a controlled entity other than as a director of the Group
- not have been on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group.

At present, materiality for these purposes is determined as a relationship or contract where the Company or Group pays in excess of $100,000.

Recent thinking on corporate governance has introduced the view that a director's independence may be perceived to be impacted by lengthy service on the board. To avoid any potential concerns, the board has determined that a director will not be deemed independent if he or she has served on the board of the company for more than ten years.

Non executive directors

The four non executive directors met five times during the year, in scheduled sessions without the presence of management, to discuss the operation of the board and a range of other matters. Relevant matters arising from these meetings were shared with the full board.

Term of office

The Company's Constitution specifies that all directors excluding the managing director must retire from office no later than the third annual general meeting (AGM) following their last election.

Chairman

The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the Group's senior executives.

Chief Executive Officer (CEO)

The CEO is responsible for implementing Group strategies and policies.

Commitment

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2008, and the number of meetings attended by each director is disclosed on page 13.

The board will meet as frequently as required but must not meet less than four times each year.

The commitments of non executive directors are considered by the nomination committee prior to the directors' appointment to the board of the Company.

Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice. With the approval of the Chairman this advice will be at the expense of the Company.

Avoidance of conflict of interest

In addition to the issue of independence, the directors have a continuing responsibility to avoid conflicts of interest (both real and apparent) between their duty to the Company and their own interests. Directors are required to disclose any actual or potential conflict of interest on appointment and are required to keep this disclosure up to date. A director that has an actual or potential conflict must immediately inform the board and remove themselves from any discussions or decision making in relation to the actual or potential conflict.

Performance assessment

The board undertakes an annual self assessment of its collective performance, the performance of the Chairman and its committees. The results and any action plans are documented together with specific performance goals which are agreed for the coming year.

Corporate reporting

The Managing Director and CFO have made the following certifications to the board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the nominations, remuneration and audit and risk committees. The nominations and audit and risk committees are comprised entirely of non executive directors.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website. All matters determined by committees are submitted to the full board as recommendations for board decisions.

Minutes of committee meetings are tabled at the subsequent board meeting. Additional requirements for specific reporting by the committees to the board are addressed in the charter of the individual committees.

Nominations committee

The nominations committee is currently comprised of Peter C Farrell (Chairman), Michael A Quinn, and R Peter Campbell all non executive directors.

Details of these directors' attendance at nomination committee meetings are set out in the directors' report on page 13.

The nomination committee operates in accordance with its charter which is available on the Company website. The nomination committee assists the board to discharge its responsibilities with regards to overseeing the composition of the board and competencies of directors together with developing procedures to asses the performance of directors. Further, advise the board on appointment and evaluation of Managing Director and to develop succession plans for the board, Managing Director and senior management.

The main responsibilities of the committee include:

- reviewing management succession planning for the Company in general but specifically in regards to the CEO and other senior management
- reviewing the appointments and terminations to senior executive positions reporting to the CEO
- reviewing and making recommendations to the board regarding the appointment of non executive directors, including:
- periodically assessing the appropriate mix of skills, experience and expertise required on the board and assessing the extent to required which skills are represented on the board
- establishing processes for identification of suitable candidates for appointment to the board
- monitoring the length of service of current board members, considering succession planning issues and identifying the likely order of retirement by rotation of non executive directors
- establishing processes for the review of the performance of individual non executive directors, the board and board committees.

Whilst the nominations committee may recommend new director candidates, it is the full board that is responsible for the actual appointment of new directors and any candidate appointed must stand for election at the next annual general meeting of the company. The committee's nomination of existing directors for reappointment is also not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the board and Company.

Remuneration committee

The remuneration committee is currently comprised of Peter C Farrell (Chairman), Michael A Quinn, both non executive directors and John W Holaday, the Managing Director.

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 13.

The remuneration committee operates in accordance with its charter which is available on the Company website. The remuneration committee assists the board to discharge its responsibilities to attract and retain senior executives and directors who will create value for shareholders. The remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for senior executives and directors.

The main responsibilities of the committee include:

- assisting the board in setting the executive remuneration policy inclusive of the operation of the Company's employee share option plan
- making recommendations to the board for reviewing and approving the remuneration of executive directors
- reviewing and approving the remuneration of senior executives as defined by the board from time to time.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination.

Further information on directors' and executives' remuneration is set out in the directors' report under the heading ''Remuneration report''.

Audit and risk committee

The audit and risk committee is currently comprised of R Peter Campbell (Chairman) and Michael A Quinn, both non executive directors.

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report on pages 10 - 13.

The audit committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Group operates.

The audit committee operates in accordance with a charter which is available on the company website. The audit and risk committee assist the board to discharge its responsibilities relating to the effectiveness of the control environment and risk management framework in the areas of operational and balance sheet risk, legal/regulatory compliance and financial reporting, together with the effectiveness and independence of the external audit process.

The main responsibilities of the committee include:

- overseeing the Company's relationship with the external auditor (including forming a policy on the provision of non audit services and the rotation of external audit personnel on a regular basis) and the external audit function in general. This includes recommending to the board the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, the scope and quality of the audit and assess performance
- overseeing the adequacy of the control processes in place in relation to the preparation of financial statements and reports
- overseeing the adequacy of the Company's financial controls and systems
- overseeing the process of identification and management of business, financial and commercial risks.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management and external auditors
- meets with the external auditors at least twice a year, or more frequently if necessary
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- provides the external auditors with a clear line of direct communication at any time to the audit committee.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. PricewaterhouseCoopers is the incumbent external auditor. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break down of fees for non audit services, is provided in the directors' report and in note 21 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

Risk assessment and management

The board, through the audit committee, is responsible for ensuring there is an adequate framework in relation to risk management, compliance and internal control systems. In summary, the framework is designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Code of Conduct

Over the past year the board has conducted the affairs of the Company in accordance with principles of good corporate governance and has required that at all times all Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Group policies.

The Company is developing a Code of Conduct to guide the board, individual directors and senior management as to the practices necessary to maintain confidence in the Group's integrity with key stakeholders and the wider community together with the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company maintains a Securities Trading Policy which is available on the company website. All directors, officers and employees are prohibited from dealing in any QRxPharma Limited securities, except while not in possession of unpublished price sensitive information. It is also contrary to the Company's policy for directors, officers and employees to be engaged in short term trading of the Company's securities. Directors, officers and employees may only deal in the Company's securities during a specified period of 45 days after the release of the Company's results or after the AGM. Directors must obtain the approval of the Chairman and employees the approval of the Company Secretary prior to dealing in the Company's securities outside those periods.

Continuous disclosure and shareholder communication

In fulfilling its responsibilities on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the company's securities the Company is committed to:

- ensuring that shareholders and the financial markets are provided with timely disclosure about its activities
- fully complying with continuous disclosure obligations contained in applicable ASX listing rules and the Corporations Act
- ensuring that all investors have equal and timely access to material information concerning the Group.

The Company has detailed this commitment in a Shareholder Communication Policy which is available on the Company website.

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The Company website provides general information and reports on the Group, inclusive of ASX announcements, investor presentations, and a link to ASX website which displays the share price, share price movements and other market information.

FINANCIAL REPORT

This financial report covers both QRxPharma Limited as an individual entity and the consolidated entity consisting of QRxPharma Limited and its subsidiaries. The financial report is presented in the Australian currency.

QRxPharma Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

QRxPharma Limited
Level 1
194 Miller St
North Sydney NSW 2060.

A description of the nature of the consolidated entity's operations and its principal activities is included in the CEOs review on pages 4-7 and in the directors' report on pages 8-24, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 20 August 2008. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available on our website:

www.qrxpharma.com

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated		Parent	
		2008	2007	**2008**	2007
	Notes	**$'000**	$'000	**$'000**	$'000
Revenue from continuing operations	5	**2,009**	304	**2,009**	304
Other income	6	**-**	4,951	**515**	4,951
Research and development	7	**(12,708)**	(2,376)	**(13,970)**	(2,376)
Employee benefits expense		**(5,298)**	(690)	**(2,838)**	(690)
Depreciation and amortisation		**(822)**	(83)	**(16)**	(11)
Finance costs	7	**-**	(1,497)	**-**	(1,497)
Other expenses		**(2,662)**	(1,090)	**(3,048)**	(1,090)
Net foreign exchange loss		**(2,618)**	(272)	**(2,648)**	(272)
Impairment of financial asset	14	**-**	-	**(17,117)**	-
Impairment of intangible asset	16	**(14,628)**		**-**	-
Loss before income tax		**(36,727)**	(753)	**(37,113)**	(681)
Income tax benefit	8	**125**	348	**125**	348
Loss from continuing operations		**(36,602)**	(405)	**(36,988)**	(333)
Loss for the year		**(36,602)**	(405)	**(36,988)**	(333)

Earnings per share for loss attributable		**Cents**	Cents
Basic loss per share	27	**(48.8)**	(2.8)
Diluted loss per share	27	**(48.8)**	(2.8)

The above income statements should be read in conjunction with the accompanying notes.

BALANCE SHEETS

AS AT 30 JUNE 2008

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
ASSETS					
Current assets					
Cash and cash equivalents	9	**29,672**	35,690	**29,583**	35,690
Trade and other receivables	10	**158**	136	**135**	136
Other financial assets at fair value through profit or loss	11	**-**	374	**-**	374
Held-to-maturity investments	12	**-**	10,491	**-**	10,491
Other current assets	13	**458**	118	**119**	-
Total current assets		**30,288**	46,809	**29,837**	46,691
Non-current assets					
Other financial assets at fair value through profit or loss	11	**-**	548	**-**	548
Other financial assets	14	**-**	-	**2,605**	15,620
Property, plant and equipment	15	**73**	25	**37**	25
Intangible assets	16	**-**	15,430	**-**	-
Total non-current assets		**73**	16,003	**2,642**	16,193
Total assets		**30,361**	62,812	**32,479**	62,884
LIABILITIES					
Current liabilities					
Trade and other payables	17	**2,024**	678	**4,169**	706
Other financial liabilities at fair value through profit or loss	11	**-**	154	**-**	154
Total current liabilities		**2,024**	832	**4,169**	860
Total liabilities		**2,024**	832	**4,169**	860
Net assets		**28,337**	61,980	**28,310**	62,024
EQUITY					
Contributed equity	18	**79,694**	79,932	**79,694**	79,932
Reserves	19(a)	**3,584**	387	**3,899**	387
Accumulated losses	19(b)	**(54,941)**	(18,339)	**(55,283)**	(18,295)
Total equity		**28,337**	61,980	**28,310**	62,024

The above balance sheets should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated		Parent	
		2008	2007	**2008**	2007
	Notes	**$'000**	$'000	**$'000**	$'000
Total equity / (deficiency in capital) at the beginning of the financial year		**61,980**	(17,103)	**62,024**	(17,131)
Loss for the year		**(36,602)**	(405)	**(36,988)**	(333)
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	18	**(238)**	79,263	**(238)**	79,263
Employee shares and share options	19	**3,512**	225	**3,512**	225
Foreign currency translation	19	**(315)**	-	**-**	-
		2,959	79,488	**3,274**	79,488
Total equity at the end of the financial year		**28,337**	61,980	**28,310**	62,024

The above statements of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Cash flows from operating activities					
Payments to suppliers and employees (inclusive of goods and services tax)		**(15,822)**	(2,004)	**(12,669)**	(1,878)
Interest received		**1,550**	248	**1,550**	248
Income tax R&D receipt	8	**125**	348	**125**	348
Payment for financial instrument		**-**	(1,127)	**-**	(1,127)
Net cash outflow from operating activities	26	**(14,147)**	(2,535)	**(10,994)**	(2,409)
Cash flows from investing activities					
Payments in relation to purchase of subsidiary		**-**	(220)	**-**	(220)
Payments for property, plant and equipment		**(68)**	(18)	**(28)**	(18)
Payments for intellectual property		**-**	(274)	**-**	-
Payments for shares issued in subsidiary	14	**-**	-	**(3,252)**	(400)
Proceeds (payments) for held-to-maturity investments		**10,846**	(10,491)	**10,846**	(10,491)
Net cash inflow / (outflow) from investing activities		**10,778**	(11,003)	**7,566**	(11,129)
Cash flows from financing activities					
Proceeds from issues of shares		**-**	51,726	**-**	51,726
Payments made in relation to IPO		**(31)**	(3,699)	**(31)**	(3,699)
Proceeds from borrowings		**-**	1,225	**-**	1,224
Net cash inflow / (outflow) from financing activities		**(31)**	49,252	**(31)**	49,251
Net (decrease) / increase in cash and cash equivalents		**(3,400)**	35,713	**(3,459)**	35,713
Cash and cash equivalents at the beginning of the financial year		**35,690**	249	**35,690**	249
Effects of exchange rate changes on cash and cash equivalents		**(2,618)**	(272)	**(2,648)**	(272)
Cash and cash equivalents at end of year	9	**29,672**	35,690	**29,583**	35,690

The above cash flow statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for QRxPharma Limited as an individual entity and the consolidated entity consisting of QRxPharma Limited and its subsidiaries.

(A) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures the financial report of QRxPharma Limited complies with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(B) GOING CONCERN

The Group has experienced significant recurring operating losses and negative cash flows from operating activities since its inception. During the year ended 30 June 2007, the Group completed an Initial Public Offering (IPO) raising $50 million (before transaction costs of $3.7 million) in conjunction with the admission of the Company on the Australian Securities Exchange (ASX). At 30 June 2008, the Group holds cash and cash equivalents of $29.7 million.

The directors have considered the significance and possible effects of these circumstances in order to determine the suitability of adopting the going concern basis for the preparation of this financial report.

Having carefully assessed the financial and operating implications of the above matters, the directors consider that the Group will be able to pay its debts as and when they fall due for at least 12 months following the date of these financial statements and that it is appropriate for the accounts to be prepared on a going concern basis.

(C) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of QRxPharma Limited (''company'' or ''parent entity'') as at 30 June 2008 and the results of all subsidiaries for the year then ended. QRxPharma Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(D) SEGMENT REPORTING

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(E) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is QRxPharma Limited's functional and presentation currency.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(F) REVENUE RECOGNITION

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(G) INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Tax consolidation legislation

QRxPharma Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, QRxPharma Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

(H) BUSINESS COMBINATIONS

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

(I) IMPAIRMENT OF ASSETS

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(J) GRANT INCOME

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

(K) CASH AND CASH EQUIVALENTS

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(L) INVESTMENTS AND OTHER FINANCIAL ASSETS

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 10).

(iii) Held-to-maturity investments

Held-to-maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Recognition and derecognition

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Fair value

The fair values of option agreements are based on current market prices.

(M) PROPERTY, PLANT AND EQUIPMENT

Depreciation on plant and equipment is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

– Plant and equipment 4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(N) INTANGIBLE ASSETS

(i) Intellectual property

Costs incurred in acquiring intellectual property are capitalized and amortised on a straight line basis of the period of the expected benefit.

Costs include only those costs directly attributable to the acquisition of the intellectual property.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

(ii) Research and development

Research expenditure on internal development projects is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight line basis over its useful life, which varies from 3 to 5 years.

(O) TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(P) BORROWINGS

Non redeemable preference shares are classified as liabilities. The accrued liabilities on preference shares are recognised in the income statement as interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Convertible notes and accrued interest are recognised as a liability. The liability is included in borrowings until the conversion or maturity of the notes.

(Q) BORROWING COSTS

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest paid or payable on convertible notes.

(R) EMPLOYEE BENEFITS

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

The Group does not maintain a Group superannuation plan. The Group makes fixed percentage contributions for all Australian resident employees to complying third party superannuation funds and for US resident employees to complying pension funds. The Group's legal or constructive obligation is limited to these contributions.

Contributions to complying third party superannuation funds and pension plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the QRxPharma Limited Employee Share Option Plan. Information relating to this scheme is set out in note 28.

The fair value of options granted under the QRxPharma Limited Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non market vesting conditions (for example, profitability and sales growth targets). Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses in accordance with the terms of employment contracts. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in the employee benefit liabilities and costs when the employee benefits to which they relate are recognised.

(S) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(T) EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(U) DERIVATIVES

Derivatives that do not qualify for hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

(V) FAIR VALUE ESTIMATION

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

(W) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(X) ROUNDING OF AMOUNTS

The company is a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2008

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Y) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group will adopt AASB 8 for the reporting period commencing on 1 July 2009. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

AASB-I 13 *Customer Loyalty Programmes*

AASB-I 13 is applicable to annual reporting periods commencing on or after 1 July 2008. It provides guidance on the accounting for customer loyalty programmes and requires that the fair value of the consideration received/receivable in respect of a sale transaction is allocated between the award credits and the other components of the sale. The Group does not operate any customer loyalty programmes. AASB-I 13 will therefore have no impact on the Group's financial statements.

Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*

The revised AASB 101 that was issued in September 2007 is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the financial statements.

AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations*

AASB 2008-1 was issued in February 2008 and will become applicable for annual reporting periods beginning on or after 1 January 2009. The revised standard clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation* [AASB 7, AASB 101, AASB 132, AASB 139 and Interpretation 2]

The amendments made by AASB 2008-2 in March 2008 relate to puttable financial instruments and instruments that require the entity to pay the holder a pro-rata share of the entity's net assets on liquidation. The revised standards have to be applied from 1 January 2009. Under the revised rules, the relevant instruments will be classified as equity if certain conditions are satisfied. As the Group has not issued any such instruments, the amendments will not have any effect on the Group's or the parent entity's financial statements.

Revised AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*

Revised accounting standards for business combinations and consolidated financial statements were issued in March 2008 and are operative for annual reporting periods beginning on or after 1 July 2009, but may applied earlier. The Group will apply the revised standards for the reporting period commencing 1 July 2009. However, the new rules generally apply only prospectively to transactions that occur after the application date of the standard. Their impact will therefore depend on whether the Group will enter into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application. For example, under the new rules:

- all payments (including contingent consideration) to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments subsequently remeasured at fair value through income
- all transaction cost will be expensed

- the Group will need to decide whether to continue calculating goodwill based only on the parent's share of net assets or whether to recognise goodwill also in relation to the non-controlling (minority) interest and
- when control is lost, any continuing ownership interest in the entity will be remeasured to fair value and a gain or loss recognised in profit or loss.

Amendments to IFRS 1 and IAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

In May 2008, the IASB made amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*. The new rules will apply to financial reporting periods commending on or after 1 January 2009. Amendments to the corresponding Australian Accounting Standards are expected to be issued shortly. The Group will apply the revised rules prospectively from 1 July 2009.

Improvements to the IFRSs

In May 2009, the IASB issued a number of improvements to existing International Financial Reporting Standards. The amendments will generally apply to financial reporting periods commending on or after 1 January 2009, except for some changes to IFRS 5 *Non-current Assets Held for Sale* and *Discontinued Operations* regarding the sale of the controlling interest in a subsidiary which will apply form 1 July 2009. We expect the AASB to make the same changes to Australian Accounting Standards shortly. The Group will apply the revised standards from 1 July 2009. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments. Cash and cash equivalents are invested exclusively with A rated financial institutions, at a minimum, with capital preservation being the stated investment objective. Risk management is carried out under policies approved by the Board of Directors.

The Group and the parent entity hold the following financial instruments:

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Financial assets				
Cash and cash equivalents	**29,672**	35,690	**29,583**	35,690
Trade and other receivables	**158**	136	**135**	136
Financial assets at fair value through profit or loss	**-**	922	**-**	922
Held-to-maturity investments	**-**	10,491	**-**	10,491
Other financial assets	**458**	118	**119**	-
	30,288	47,357	**29,837**	47,239
Financial liabilities				
Trade and other payables	**2,024**	678	**4,169**	706
Other financial liabilities	**-**	154	**-**	154
	2,024	832	**4,169**	860

(A) MARKET RISK

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from currency exposure to the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

Derivative financial instruments of a net carrying value of $768,214 at 30 June, 2007 have been recognised at a fair value of $nil at 30 June 2008.

During the financial year ended 30 June 2007, the Group had entered into a series of foreign exchange put option contracts at an exchange rate between Australian dollars and US dollars of AUD$1.00 to US$0.8181 to protect against adverse foreign exchange movements between AUD and USD. The option contracts were to cover anticipated expenditure of at least $29 million over 2 years to fulfil research and development expenditure associated with clinical trials to be conducted in the United States of America (US). The Prospectus issued by the Company on 27 April, 2007 assumed an exchange rate between Australian dollars and US dollars of AUD$1.00 to US$0.78. During the year the Group converted AUD$20 million to USD at an average rate of US$0.9027, taking advantage of the more favourable rates above the option contracts.

In addition, at 30 June 2007 the Group held a series of smart forward exchange contracts which had a fair value as a liability at that date of $154,024.

These put options contracts cover existing purchase contracts and highly probable forecasted purchases over the ensuing two financial years and mature as follows:

Buy US dollars	Sell Australian dollars		Average exchange rate	
	2008	2007	**2008**	2007
	$'000	$'000		
Maturity				
6 – 12 months	**15,300**	13,200	**0.8180**	0.8180
1 - 2 years	**-**	15,300	**0.8180**	0.8180
	15,300	28,500		

Amounts disclosed above represent currency sold measured at the contracted rate.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2008	30 June 2007
	USD	USD
	$'000	$'000
Cash at bank	**333**	364
Term deposits	**21,022**	6,669
Trade payables	**116**	-

The carrying amounts of the parent entity's financial assets and liabilities are denominated in Australian dollars except as set out below:

	30 June 2008	30 June 2007
	USD	USD
	$'000	$'000
Cash at bank	**333**	364
Term deposits	**21,022**	6,669
Trade payables	**3,891**	-

Group sensitivity

Based on the financial instruments held at 30 June 2008, had the Australian dollar weakened / strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax loss for the year would have been $2.5 million lower / $2.0 million higher (2007 – $921,000 higher / $753,000 lower), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. Profit is more sensitive to movements in the Australian dollar/US dollar exchange rates in 2008 than 2007 because of the increased amount of US dollar denominated cash and cash equivalents. The Group's exposure to other foreign exchange movements is not material.

Parent entity sensitivity

The parent entity's post-tax loss for the year would have been $5.7 million lower / $1.7 million higher (2007 - $798,000 lower / $653,000 higher) had the Australian dollar weakened/strengthened by 10% against the US dollar, mainly as a result of foreign exchange gains/losses on the translation of US dollar denominated derivatives held for trading.

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Price risk

The Group and the parent entity are not exposed to equity securities price risk or commodity price risk.

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from the holding of cash and cash equivalents. During the year, the Group held significant bank accepted commercial bills and term deposit interest-bearing assets exposing the Group's income and operating cash flows to changes in market interest rates

The value of borrowings at 30 June 2008 was $nil (2007 - $nil), thus limiting the Group's exposure to any cash flow risk in relation to liabilities. During the financial year ended 30 June 2007 prior to completion by the Company of its initial public offering, the Group converted all outstanding convertible notes, preference shares and warrants to ordinary shares. The preference shares and convertible notes were subject to fixed interest rate risk of 10% per annum.

Group sensitivity

As at 30 June 2008, if interest rates had changed by -/+ 125 basis points from the year-end rates with all other variables held constant, the post-tax loss for the year would have been $70,100 higher / lower (2007 – change of 125 bps: $22,400 higher / lower), mainly as a result of lower/higher interest income from cash and cash equivalents.

Parent entity sensitivity

The parent entity's main interest rate risk arises from the holding of cash equivalents. As at 30 June 2008, if interest rates had changed by -/+ 125 basis points from the year-end rates with all other variables held constant, the post-tax loss would have been $70,100 higher / lower (2007 – change of 125 bps: $22,400 higher / lower) as a result of lower / higher interest income from these financial assets.

(B) CREDIT RISK

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are acceptable. At 30 June 2008, cash equivalents were held with an Aa1 and an A3 financial institution, as rated by Moody's.

(C) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities.

The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2008. Due to negative cash flow position the Group has not committed to any credit facilities rather relied upon equity and debt financing through private and public equity investors. On 24 May 2007 and prior to completion by the company of its initial public offering the Series A preference shares, convertible notes and warrants have been converted to ordinary shares at a 1.85 conversion rate in accordance with the terms of the IPO deed dated 27 April 2007.

The Group and parent entity's exposure to liquidity risk is restricted to the value of outstanding trade creditors. Trade payables generally have 30 day payment terms, and at 30 June 2008, the Group and parent entities had no overdue liabilities. The Group is continuously monitoring its' level of expenditure against the Prospectus as funds are expended in accordance with its' drug development expenditure program. The value of trade creditors at 30 June 2008 for the Group was $1.6 million (2007: $400,000) which is payable within 3 months of the year end and at 30 June 2008, the entity carried cash and cash equivalents of $29.7 million (2007: $37.5 million).

The value of trade creditors at 30 June 2008 for the parent was $158,000 (2007: $400,000) which is payable within 3 months of the year end and at 30 June 2008, the parent entity carried cash and cash equivalents of $29.6 million (2007: $37.5 million).

The Group also holds a Sponsored Research Agreement with the University of Alabama. The Group is committed to paying the University of Alabama USD 400,000 per annum, payable quarterly for five years from 25 May 2007. This agreement can be terminated by the Group at any time without cause upon 12 months prior written notice to the University of Alabama.

(D) FAIR VALUE ESTIMATION

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

The carrying value of trade payables are assumed to approximate their fair values due to their short-term nature.

Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk, foreign exchange risk and other price risk.

		Foreign exchange risk				Interest rate risk			
		-10%		+10%		-125bps		+125bps	
30 June 2008	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	29,672	2,465	-	(2,017)	-	(70)	-	70	-
Financial liabilities									
Trade payables	1,611	(13)	-	11	-	-	-	-	-
Total increase/decrease		2,452	-	(2,006)	-	(70)	-	70	-

		Foreign exchange risk				Interest rate risk			
		-10%		+10%		-125bps		+125bps	
30 June 2007	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	7,033	934	-	(764)	-	(22)	-	22	-
Financial liabilities									
Trade payables	400	(13)	-	11	-	-	-	-	-
Total increase/decrease		921	-	(753)	-	(22)	-	22	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2008

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Research and development expenditure

The Group has expensed all internal research and development expenditure incurred during the year as the costs relate to the initial expenditure for research and development of biopharmaceutical products and the generation of future economic benefits are not considered certain. It was considered appropriate to expense the research and development costs as they did not meet the criteria to be capitalised under AASB 138.

Fair value of financial assets and liabilities

The Group has entered into a number of Australian dollar (AUD) put option agreements and smart forward exchange contracts to purchase US dollar (USD) to manage its exposure to foreign exchange movements. The directors have assessed and measured the derivative instruments at their fair value at year end.

Impairment of intangible assets

The Group reviews definite life intangibles for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Group makes estimates and assumptions about the recoverability of intellectual property. Where the carrying value of the intellectual property exceeds the recoverable amount, an impairment loss is recognised to record the intellectual property at its recoverable amount.

By agreement dated 26 April 2007, between CNS Co. Inc (a company then controlled by Dr John Holaday), QRxPharma Limited, QRxPharma Inc and Dr John Holaday, CNS Co. Inc merged with QRxPharma, Inc. Upon the merger CNS Co. Inc ceased to exist and QRxPharma Inc became the surviving entity. Under the terms of the merger agreement QRxPharma Inc acquired 100% of the equity of CNS Co. Inc with the purchase consideration payable to Dr John Holaday being equivalent to 10% of the post IPO ordinary capital of QRxPharma Limited. As detailed in note 18 (h) this purchase consideration was satisfied through the issue of 7,500,000 ordinary shares in QRxPharma Limited at the time of the Company's initial public offering ("IPO") on 25 May 2007.

Intellectual property of $15.5 million acquired through this merger relates to an exclusive worldwide license from the University of Alabama ("UOA") of certain technology relating to the treatment of central nervous system (CNS) disorders and other related diseases ("Torsin IP"). The Torsin IP programme is run through the Caldwell Labs at the UOA and is directed at re engineering existing drug therapies for new clinical applications, which include the treatment of dystonia, Parkinson's disease and other neurological disorders which are a part of the Central Nervous System ("CNS") market. Under the terms of this agreement the Group will use its commercially reasonable best efforts to bring a product or process using the Torsin IP to market through a commercially reasonable development programme to meet certain milestones. The first milestone is the filing of an investigational new drug application for a product within three years. The commercial commitments are more fully described in note 22.

At 30 June 2008 this Torsin IP had a carrying value of $14.6 million. Accounting Standard AASB 136 "Impairment of Assets" requires the assessment of the Torsin IP for impairment on an annual basis. The ability of an intangible asset such as the Torsin IP to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty before the asset is capable of generating cash flows.

Whilst the Company has supported the enhancement of the Torsin IP to date, the board's decision to focus on the Company's pain relief assets implies that, in its current development stage, the Torsin IP could not generate cash flow other than from the out-licence or sale of the asset. As no contracts have at 30 June 2008 been negotiated for either the out-licence or sale of the Torsin IP, the Company has fully impaired the carrying value of the asset at 30 June 2008 being $14.6 million pursuant to the requirements of AASB 136.

It should be noted in fully impairing the carrying value of this asset at 30 June 2008 does not mean the abandonment of the programme with the UOA as it is believed that the asset still has long term value and remains part of the Company's preclinical and clinical pipeline of pharmaceuticals.

Black- Scholes option pricing model

During the year, the Group booked $3.3 million of share-based payments as determined through the application of the Black- Scholes option pricing model. The Black-Scholes model is dependent on a number of variables and estimates fully described in note 28.

4 SEGMENT INFORMATION

The Group's operations during the year were predominantly in Australia. The Group operates in only one market segment, that of the research and development of biopharmaceutical products for commercial sale.

5 REVENUE

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
From continuing operations				
Interest	**2,009**	304	**2,009**	304

6 OTHER INCOME

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Management fees	**-**	-	**515**	-
Gain on conversion of financial instruments	**-**	4,951	**-**	4,951
	-	4,951	**515**	4,951

On 24 May 2007 the Series B convertible notes and Series A preferred shares were converted into ordinary shares (refer note 18 (e)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2008

7 EXPENSES

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Loss before income tax includes the following specific expenses:				
Depreciation and Amortisation				
Plant and equipment	**20**	11	**16**	11
Amortisation of intangible assets	**802**	72	**-**	-
	822	83	**16**	11
Net foreign exchange loss	**2,618**	272	**2,648**	272
Finance costs				
Interest payable on convertible notes	**-**	371	**-**	371
Interest payable on preference shares	**-**	1,126	**-**	1,126
	-	1,497	**-**	1,497
Fair value losses on derivative financial instrument	**-**	359	**-**	359
Employee benefit expense				
Employee benefit expense	**2,907**	457	**1,136**	457
Defined contribution superannuation expense	**38**	8	**38**	8
Share option expense	**2,353**	225	**1,664**	225
	5,298	690	**2,838**	690
Research and development				
Research and development expensed	**12,708**	2,376	**13,970**	2,376
Impairment of intangible asset	**14,628**	-	**-**	-
	27,336	2,376	**13,970**	2,376
Impairment losses – financial assets				
Investment in subsidiary	**-**	-	**17,117**	-
Rental expenses relating to operating leases				
Minimum lease payments	**73**	-	**27**	-

8 INCOME TAX BENEFIT

(A) INCOME TAX BENEFIT	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Current tax	**-**	-	**-**	-
Deferred tax expense	**(125)**	(348)	**(125)**	(348)
	(125)	(348)	**(125)**	(348)

The deferred tax asset relates to a Research and Development tax rebate payment received during the year under Section 73 B of the Income Tax Assessment Act 1936.

(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Loss from continuing operations before income tax expense	**(36,727)**	(753)	**(37,113)**	(681)
Tax at the Australian tax rate of 30% (2007 – 30%)	**(11,018)**	(226)	**(11,134)**	(205)
Tax effect of amounts which are not deductible in calculating taxable income:				
Amortisation of intangibles	**241**	21	**-**	-
Impairment of intangible asset	**4,388**	-	**-**	-
Impairment of financial asset	**-**	-	**5,135**	-
Research & development expenditure	**-**	574	**-**	574
Share-based payments	**779**	67	**779**	67
Interest on preference shares	**-**	(1,103)	**-**	(1,103)
	(5,610)	(667)	**(5,220)**	(667)
Previously unrecognised losses recouped	**(125)**	(348)	**(125)**	(348)
Benefit of tax losses not recognised	**5,610**	667	**5,220**	667
Income tax expense	**(125)**	(348)	**(125)**	(348)

(C) TAX LOSSES	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Unused tax losses for which no deferred tax asset has been recognised	**27,513**	8,813	**26,213**	8,813
Potential tax benefit @ 30%	**8,254**	2,644	**7,864**	2,644

No deferred tax asset has been recognised for the tax losses generated from operations in both Australia and the USA, as the benefit for tax losses will only be obtained if:

(i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or

(ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation, and

(iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deduction for the losses.

8 INCOME TAX BENEFIT (CONTINUED)

(D) TAX CONSOLIDATION LEGISLATION

QRxPharma Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 7 December 2002. The accounting policy in relation to this legislation is set out in note 1(g).

9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Cash at bank	**654**	2,339	**565**	2,339
Term deposits	**21,839**	6,669	**21,839**	6,669
Commercial bills	**7,179**	26,682	**7,179**	26,682
	29,672	35,690	**29,583**	35,690

(A) CASH AT BANK

These bear an interest rate of 7.3% (2007: 5.98%) for the AUD accounts and 1.0% (2007: 3%) for the USD accounts.

(B) TERM DEPOSITS

These are USD deposits and bear an average fixed interest rate of 2.3% (2007: 5.1%). These deposits have a maturity of less than 3 months.

(C) COMMERCIAL BILLS

These commercial bills are bearing an average interest rate of 7.40% (2007: 6.30%) and have a maturity of less then 3 months.

Bank accepted commercial bills and term deposits with a maturity greater than 3 months have been classified as held-to-maturity investments (refer note 12).

10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Interest receivable	**105**	57	**105**	57
Other receivables	**53**	79	**30**	79
	158	136	**135**	136

Information about the Group's and the parent's exposure to foreign currency and interest rate risk in relation to other receivables is provided in note 2.

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

11 OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Current assets				
Derivative financial instrument	-	374	-	374
Total current assets	-	374	-	374
Non-current assets				
Derivative financial instrument	-	548	-	548
Total non current assets	-	548	-	548
Total assets	-	922	-	922
Current liabilities				
Derivative financial instrument	-	154	-	154
Total liabilities	-	154	-	154

INSTRUMENTS USED BY THE GROUP

Derivative financial instruments of a net carrying value of $768,214 at 30 June, 2007 have been fair valued to $nil at 30 June 2008.

During the financial year ended 30 June 2007, the Group had entered into a series of foreign exchange put option contracts at an exchange rate between Australian dollars and US dollars of AUD 1.00 to USD 0.8181 to protect against adverse foreign exchange movements between AUD and USD. The options contracts were to cover anticipated expenditure of at least $29 million over 2 years to fulfil research and development expenditure associated with clinical trials to be conducted in the United States of America. The Prospectus issued by the Company on 27 April, 2007 assumed an exchange rate between Australian dollars and US dollars of AUD 1.00 to USD 0.78. During the year the Group converted AUD 20 million to USD at an average rate of US$0.9027, taking advantage of the more favourable rates above the option contracts.

In addition, at 30 June 2007 the Group held a series of smart forward exchange contracts which were fair valued as a liability at that date at $154,024.

These put options contracts are covering existing purchase contracts and highly probable forecasted purchases over the ensuing two financial years and mature as follows:

Buy US dollars	Sell Australian dollars		Average exchange rate	
	2008	2007	**2008**	2007
	$'000	$'000		
Maturity				
6 – 12 months	**15,300**	13,200	**0.8180**	0.8180
1 - 2 years	-	15,300	**0.8180**	0.8180
	15,300	28,500		

Amounts disclosed above represent currency sold measured at the contracted rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2008

12 CURRENT ASSETS – HELD-TO-MATURITY INVESTMENTS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Commercial bill	**-**	9,691	**-**	9,691
Security deposit	**-**	800	**-**	800
	-	10,491	**-**	10,491

The bank accepted commercial bill of $9.7 million, bearing an interest rate of 6.47% was due to mature on 19 December 2007, but was matured early on 14 November 2007. The proceeds were converted into US dollars and reinvested in term deposits having maturities of less than 3 months from original investment date. The security deposit of $0.8 million bearing a fixed interest rate of 6.2% matured on 18 May 2008. The proceeds were reinvested in commercial bills having a maturity of less than 3 months from the original investment date. Accordingly these amounts have been reclassified and disclosed as cash and cash equivalents in accordance with AASB 107 "Cash Flow Statements".

13 CURRENT ASSETS – OTHER CURRENT ASSETS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Prepayments	**458**	118	**119**	-

14 NON CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Investment in subsidiaries (note 25)	**-**	-	**20,223**	16,121
Less provision for write down to recoverable amount	**-**	-	**(17,618)**	(501)
	-	-	**2,605**	15,620

These financial assets are carried at cost.

Due to the impairment loss on the Torsin IP asset recognised in the books of the subsidiary, a provision for diminution in value against the investment in the books of the parent entity has been recognised. Refer to note 3.

15 NON–CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Consolidated	Parent
	Plant & Equipment $'000	Plant & Equipment $'000
At 1 July 2006		
Cost	109	109
Accumulated depreciation	(91)	(91)
Net book amount	18	18
Year ended 30 June 2007		
Opening net book amount	18	18
Additions	18	18
Depreciation charge	(11)	(11)
Closing net book amount	25	25
At 30 June 2007		
Cost	127	127
Accumulated depreciation	(102)	(102)
Net book amount	25	25
Year ended 30 June 2008		
Opening net book amount	25	25
Additions	68	28
Depreciation charge	(20)	(16)
Closing net book amount	73	37
At 30 June 2008		
Cost	195	155
Accumulated depreciation	(122)	(118)
Net book amount	73	37

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2008

16 NON–CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Patents, trademarks and other rights $'000	Other intangible assets $'000	Total $'000
Year ended 30 June 2007			
Opening net book amount	-	-	-
Acquisition of intellectual property	15,502	-	15,502
Amortisation charge	(72)		(72)
Closing net book amount	15,430	-	15,430
At 30 June 2007			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(72)	(889)	(961)
Net book amount	15,430	-	15,430

Consolidated	Patents, trademarks and other rights $'000	Other intangible assets $'000	Total $'000
Year ended 30 June 2008			
Opening net book amount	15,430	-	15,430
Impairment of intellectual property*	(14,628)	-	(14,628)
Amortisation charge	(802)	-	(802)
Closing net book amount	-	-	-
At 30 June 2008			
Cost	15,502	889	16,391
Accumulated amortisation and impairment	(15,502)	(889)	(16,391)
Net book amount	-	-	-

*The carrying amount of the Torsin IP asset has been reduced to its recoverable amount of $nil through recognition of an impairment loss against the asset. This loss has been disclosed as a separate line item in the income statement. Refer to note 3.

16 NON–CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

Parent	Patents, trademarks and other rights $'000	Other intangible assets $'000	Total $'000
At 1 July 2006			
Cost	-	414	414
Accumulated amortisation and impairment	-	(414)	(414)
Net book amount	-	-	-
Year ended 30 June 2007			
Opening net book amount	-	-	-
Closing net book amount	-	-	-
At 30 June 2007			
Cost	-	414	414
Accumulated amortisation and impairment	-	(414)	(414)
Net book amount	-	-	-
Year ended 30 June 2008			
Opening net book amount	-	-	-
Closing net book amount	-	-	-
At 30 June 2008			
Cost	-	414	414
Accumulated amortisation and impairment	-	(414)	(414)
Net book amount	-	-	-

17 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Trade payables	**1,611**	400	**158**	400
Amounts due to subsidiaries	**-**	-	**3,802**	28
Accrued employee benefits	**92**	272	**32**	272
Other payables	**321**	6	**177**	6
	2,024	678	**4,169**	706

Accrued employee benefits include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. It is expected that employees will use the full amount of accrued leave within the next 12 months.

18 CONTRIBUTED EQUITY

	Parent		Parent	
	2008 Shares	2007 Shares	**2008 $'000**	2007 $'000
(A) SHARE CAPITAL				
Ordinary shares – fully paid	**75,000,000**	75,000,000	**79,694**	79,932

(B) MOVEMENTS IN ORDINARY SHARE CAPITAL:

Date	Details	Notes	Number of shares	Issue price	$'000
1 July 2006	Opening balance		7,588,721		670
11 August 2006	Exercise of options	(d)	9,120	$0.15	1
12 March 2007	Exercise of options	(d)	60,000	$0.15	9
19 April 2007	Exercise of options	(d)	654,192	$0.15	98
25 April 2007	Exercise of options	(d)	80,000	$0.15	12
25 April 2007	Exercise of options net	(d)	653,640		-
25 April 2007	Issue of shares	(d)	509,325		-
24 May 2007	Conversion of Preferred Shares Series A	(e)	18,960,911	$0.54	9,898
24 May 2007	Conversion of Convertible Note Series A	(e)	5,674,837	$0.54	3,068
24 May 2007	Conversion of Convertible Note Series B	(e)	5,550,000	$0.27	1,500
24 May 2007	Conversion of Convertible Note Series B Warrants	(e)	5,550,000	$0.27	1,500
24 May 2007	Issue of shares in settlement of IP deed	(f)	1,912,500	$1.00	1,913
25 May 2007	Compression of shares prior to IPO	(g)	(4,703,246)		-
25 May 2007	Share issue to acquire subsidiary	(h)	7,500,000	$2.00	15,000
25 May 2007	Share issue from IPO	(i)	25,000,000	$2.00	50,000
	Less: Transaction costs arising on IPO				(3,699)
	Less: Transaction costs arising on other capital raising				(38)
30 June 2007	Balance		75,000,000		79,932
	Less: Transaction costs arising on share issues				(238)
30 June 2008	Balance		75,000,000		79,694

(C) ORDINARY SHARES

Each ordinary shareholder maintains, when present in person or by proxy or by attorney at any general meeting of the company, the right to cast one vote for each ordinary share held.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

(D) OPTIONS

Information relating to the QRxPharma Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in note 28.

On 25 April 2007 cashless options were exercised resulting in the issue of 653,640 shares.

Certain options carried anti dilution provisions which resulted in an uplift of 509,325 options which were exercised at the same time.

These shares were issued to directors and key management personnel of the Group during the year ended 30 June 2007.

(E) CONVERSION OF SERIES A PREFERENCE SHARES, CONVERTIBLE NOTES AND WARRANTS

On 24 May 2007 and prior to completion by the company of its IPO the Series A preference shares, convertible notes and warrants were converted to ordinary shares at a 1.85 conversion rate in accordance with the terms of the IPO deed dated 27 April 2007.

(F) ISSUE OF SHARES IN SETTLEMENT OF IP DEED

On 24 May 2007 the Company issued 1,912,500 ordinary shares to Uniquest Pty Limited at $1.00 per share to compensate Uniquest Pty Limited for early settlement of an intellectual property subscription deed.

(G) SHARE CONSOLIDATION

On 25 May 2007 and also prior to the IPO, the company completed a consolidation of ordinary shares which reduced the number of shares on a issue by factor per share of 0.90036.

(H) SHARE ISSUE TO ACQUIRE SUBSIDIARY

The Group acquired 100% of the equity of CNS Co, Inc. on 26 April 2007 for consideration equivalent to 10% of the post IPO ordinary capital of the Company.

(I) SHARE ISSUE FROM IPO

On 25 May 2007 the company listed on the Australian Securities Exchange (ASX) following the completion of a fully underwritten IPO with a subscription of 25,000,000 ordinary shares at an issue price of $2.00 per share.

(J) VOLUNTARY ESCROWS

Certain directors, consultants and pre IPO investors have voluntarily escrowed their shareholdings in the Company. Collectively these escrows extend to 34,229,407 ordinary shares through to 25 May 2009. At 25 May 2008, voluntary escrows on 10,075,929 ordinary shares expired.

(K) CAPITAL RISK MANAGEMENT

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may, return capital to shareholders; issue new shares or sell assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2008

19 RESERVES AND ACCUMULATED LOSSES

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
(A) RESERVES				
Share-based payments reserve	**3,899**	387	**3,899**	387
Foreign currency translation reserve	**(315)**	-	**-**	-
	3,584	387	**3,899**	387
MOVEMENTS:				
Share-based payments reserve				
Balance 1 July	**387**	162	**387**	162
Option expense	**3,512**	149	**2,691**	149
Options issued to employees of subsidiaries	**-**	-	**821**	-
Options issued under anti dilution provisions	**-**	76	**-**	76
Balance 30 June	**3,899**	387	**3,899**	387
Foreign currency translation reserve				
Balance 1 July	**-**	-	-	-
Currency translation differences arising during the year	**(315)**	-	-	-
Balance 30 June	**(315)**	-	**-**	-
(B) ACCUMULATED LOSSES				
Movements in accumulated losses were as follows:				
Opening accumulated losses	**(18,339)**	(17,934)	**(18,295)**	(17,962)
Loss for the year	**(36,602)**	(405)	**(36,988)**	(333)
Balance 30 June	**(54,941)**	(18,339)	**(55,283)**	(18,295)

(C) NATURE AND PURPOSE OF RESERVES

(i) Share-based payments reserve

The share-based payment reserve is used to recognise:

- the fair value of options issued to employees but not exercised
- the fair value of shares issued to employees
- in the parent entity – the fair value of shares and options issued to employees of subsidiaries

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(e). The reserve is recognised in profit and loss when the net investment is disposed.

20 KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) DIRECTORS

The following persons were directors of QRxPharma Limited during the financial year:

(i) Chairman – non executive

Peter C Farrell

(ii) Executive director

John W Holaday, Managing Director and Chief Executive Officer

(iii) Non executive directors

Michael A Quinn

R Peter Campbell

Gary W Pace, Consultant

(B) OTHER KEY MANAGEMENT PERSONNEL

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	
Douglas A Saltel	Chief Operating Officer	(resigned 7 March 2008)
Warren C Stern	Executive Vice President, Drug Development	
Chris J Campbell	Chief Financial Officer and Company Secretary	
Joseph J Berry	Vice President Operations	(appointed 12 November 2007)
Philip J Magistro	Vice President, Commercial Operations	(appointed 26 November 2007)
Patricia T Richards	Senior Vice President, Clinical Research	(appointed 18 February 2008)

All of the above persons were also key management persons during the year ended 30 June 2007, except for Patricia Richards, Philip Magistro and Joseph Berry.

(C) KEY MANAGEMENT PERSONNEL COMPENSATION

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$
Short term employee benefits	**2,123,952**	445,725	**968,263**	445,725
Post employment benefits	**28,102**	8,327	**28,102**	8,327
Long term benefits	**-**	-	**-**	-
Share-based payments	**2,361,213**	171,207	**1,674,644**	171,207
	4,513,267	625,259	**2,671,009**	625,259

The company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 14 to 19.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(D) EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 19 - 21.

(ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of QRxPharma Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2008

Name	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of QRxPharma Limited							
Peter C Farrell	604,089	-	-	-	604,089	201,363	402,927
John W Holaday	805,452	-	-	-	805,452	268,484	536,968
Gary W Pace	402,726	-	-	-	402,726	134,242	268,484
Michael A Quinn	402,726	-	-	-	402,726	134,242	268,484
R Peter Campbell	241,635	-	-	-	241,635	80,545	161,090
Other key management personnel of the Group							
Warren C Stern	805,452	-	-	-	805,452	268,484	536,968
Douglas A Saltel *(resigned 7 March 2008)*	805,452	-	-	805,452	-	-	-
Chris J Campbell	402,726	-	-	-	402,726	134,242	268,484
Patricia T Richards *(appointed 18 February 2008)*	-	500,000	-	-	500,000	-	500,000
Philip J Magistro *(appointed 26 November 2007)*	-	200,000	-	-	200,000	-	200,000
Joseph J Berry *(appointed 12 November 2007)*	-	150,000	-	-	150,000	-	150,000

(ii) Option holdings (continued)

2007

Name	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of QRxPharma Limited							
Peter C Farrell	-	604,089	-	-	604,089	-	604,089
John W Holaday	-	805,452	-	-	805,452	-	805,452
Gary W Pace	207,096	402,726	(207,096)	-	402,726	-	402,726
Michael A Quinn	-	402,726	-	-	402,726	-	402,726
R Peter Campbell	-	241,635	-	-	241,635	-	241,635
David Stack *(resigned 27 April 2007)*	447,096	-	(447,096)	-	-	-	-
Other key management personnel of the Group							
Warren C Stern	-	805,452	-	-	805,452	-	805,452
Douglas A Saltel	-	805,452	-	-	805,452	-	805,452
Chris J Campbell	-	402,726	-	-	402,726	-	402,726
Felix de la Iglesia *(resigned 25 May 2007)*	-	50,000	-	-	50,000	-	50,000
B Nicholas Harvey *(resigned 1 March 2007)*	131,788	-	-	(131,788)	-	-	-

The additional shares issued to the directors on 25 April 2007 under the anti dilution provision (note 18(d)) were:

Name	Shares issued
Directors of QRxPharma Limited	
Gary W Pace	71,689
David Stack	154,768
Other key management personnel of the Group	
Felix de la Iglesia	88,996
B Nicholas Harvey	45,620

20 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(iii) Share holdings

The numbers of shares in the company held during the financial year by each director of QRxPharma Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2008

Name	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of QRxPharma Limited				
Ordinary shares				
Peter C Farrell	1,145,540	-	135,000	1,280,540
John W Holaday	7,505,000	-	38,000	7,543,000
Gary W Pace	3,190,083	-	40,000	3,230,083
Michael A Quinn	10,593,090	-	(1,121,341)	9,471,749
R Peter Campbell	50,000	-	35,000	85,000
Other key management personnel of the Group				
Ordinary shares				
Warren C Stern	-	-	-	-
Douglas A Saltel *(resigned 7 March 2008)*	-	-	-	-
Chris J Campbell	-	-	-	-
Patricia T Richards *(appointed 18 February 2008)*	-	-	-	-
Philip J Magistro *(appointed 26 November 2007)*	-	-	-	-
Joseph J Berry *(appointed 12 November 2007)*	-	-	-	-

2007

Name	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of QRxPharma Limited				
Ordinary shares				
Peter C Farrell *(appointed 27 April 2007)*	-	-	1,145,540	1,145,540
John W Holaday *(appointed 27 April 2007)*	-	-	7,505,000	7,505,000
Gary W Pace	1,573,511	207,096	1,409,476	3,190,083
Michael A Quinn	500,000	-	10,093,090	10,593,090
R Peter Campbell *(appointed 27 April 2007)*	-	-	50,000	50,000
David Stack *(resigned 27 April 2007)*	-	447,096	94,799	541,895
Michael S Hirshorn *(resigned 27 April 2007)*	-	-	-	-
George Savage *(resigned 27 April 2007)*	-	-	-	-
David A Henderson *(resigned 27 April 2007)*	-	-	-	-
Other key management personnel of the Group				
Ordinary shares				
Warren C Stern	-	-	-	-
Douglas A Saltel	-	-	-	-
Chris J Campbell	-	-	-	-
Felix de la Iglesia *(resigned 25 May 2007)*	607,096	-	773,270	1,380,366
B Nicholas Harvey *(resigned 1 March 2007)*	175,000	131,788	(157,040)	149,748

(E) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

During the year, the company directly engaged and contracted the services of certain key management personnel to perform consulting services for the Group. The total amount paid to key management personnel for contracted services rendered during the year amounted to $239,443 (2007: $321,716). Prior to a number of consultants becoming key management personnel of the Group, they were paid $67,800 for consulting services.

During the year ended 30 June 2007, Innovation Capital Associates Pty Limited, of which Michael Quinn is a director and shareholder, provided administration and other services and facility support to the Company on normal commercial terms amounting to $97,930.

21 REMUNERATION OF AUDITORS

	Consolidated		Parent	
(A) AUDIT SERVICES	**2008 $**	2007 $	**2008 $**	2007 $
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**86,000**	97,200	**86,000**	97,200
Total remuneration for audit services	**86,000**	97,200	**86,000**	97,200
(B) NON-AUDIT SERVICES				
PricewaterhouseCoopers Australian firm				
Audit related services	**-**	145,000	**-**	145,000
Taxation services	**99,270**	80,300	**99,270**	80,300
Total remuneration for audit related services	**99,270**	225,300	**99,270**	225,300
	185,270	322,500	**185,270**	322,500

22 CONTINGENCIES

As detailed in note 18(h) the Group acquired on 26 April 2007 a 100% interest in CNS Co, Inc. As also detailed in note 16 the Group through this acquisition now holds a license agreement with University of Alabama (USA). Under the terms of this license agreement the Group is obligated to meet certain milestone payments as advances against future royalties from the Torsin programme as follows:

(i) USD 750,000 on commencement by the Group of Phase II clinical trial for any Torsin IP product;

(ii) USD 1,500,000 on commencement by the Group of Phase III clinical trial for any Torsin IP product;

(iii) USD 2,000,000 on the date of receipt by the Group of first market approval for each Torsin IP product.

The agreement may be terminated by the Group at any time on 6 months notice to the University of Alabama and upon payment of all amounts due to University of Alabama to the effective termination date. The agreement will expire on the last expire date of the patents licensed under the agreement.

23 COMMITMENTS

(A) UNIVERSITY OF ALABAMA.

The Group also holds a Sponsored Research Agreement with the University of Alabama. The Group is committed to paying the University of Alabama USD 400,000 per annum, payable quarterly for five years from 25 May 2007. This agreement can be terminated by the Group at any time without cause upon 12 months prior written notice to the University of Alabama.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2008

23 COMMITMENTS (CONTINUED)

(B) UNIVERSITY OF QUEENSLAND

On 10 January 2008, the Company entered into a Collaborative Reserach Agreement with the University of Queensland for the conduct of the Australian Research Council linkage project grant; "Pre-clinical evaluation of snake venom proteins with therapeutic potential". Under the terms of this grant, the Company is contracted to pay a total of $209,000 to the University over the next two years.

(C) OPERATING LEASES

The Group leases office premises in Sydney, Australia and New Jersey, USA. The leases have varying terms, escalation clauses and renewal rights.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Within one year	**100**	-	**19**	-
Later than one year but not later than five years	**171**	-	**21**	-
Later than five years	**-**	-	**-**	-
	271	-	**40**	-

24 RELATED PARTY TRANSACTIONS

(A) SUBSIDIARIES

Interests in subsidiaries are set out in note 25.

(B) KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in note 20.

(C) OUTSTANDING BALANCES

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$
Current payables				
Subsidiaries	**-**	-	**3,802,332**	27,700
Balances in relation to related parties	**-**	45,199	**-**	45,199

(D) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$
Other income				
Management services to subsidiary	**-**	-	**515,205**	-
Expenses				
Research and development service fees and costs from subsidiary	**-**	-	**13,107,627**	-

25 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

			Equity holding	
			2008	2007
Name of entity	**Country of incorporation**	**Class of shares**	**%**	%
The Lynx Project Pty Limited	Australia	Ordinary	**100**	100
Haempatch Pty Limited	Australia	Ordinary /Preference	**100**	100
QRxPharma, Inc.	USA	Ordinary	**100**	100

26 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Loss for the year	**(36,602)**	(405)	**(36,988)**	(333)
Depreciation and amortisation	**822**	83	**16**	11
Impairment of intangible asset	**14,628**	-	**-**	-
Impairment of financial asset	**-**	-	**16,267**	-
Non cash employee benefits expense – share-based payments	**3,257**	225	**3,305**	225
Net exchange differences on cash and cash equivalents	**2,353**	272	**2,648**	272
Interest on held-to-maturity investments	**(355)**	-	**(355)**	-
Change in operating assets and liabilities				
(Increase)/decrease in other receivables and prepayments	**511**	(254)	**804**	(135)
Increase/(decrease) in trade creditors and accruals	**1,239**	78	**3,309**	78
Increase/(decrease) in other operating liabilities	**-**	(2,534)	**-**	(2,527)
Net cash outflow from operating activities	**(14,147)**	(2,535)	**(10,994)**	(2,409)

27 LOSS PER SHARE

	Consolidated	
	2008 Cents	2007 Cents
(A) BASIC LOSS PER SHARE		
Loss from continuing operations attributable to the ordinary equity holders of the company	**(48.8)**	(2.8)
(B) DILUTED LOSS PER SHARE		
Loss from continuing operations attributable to the ordinary equity holders of the company	**(48.8)**	(2.8)

	Consolidated	
(C) RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE	**2008 $'000**	2007 $'000
Basic loss per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**(36,602)**	(405)
Diluted loss per share		
Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**(36,602)**	(405)

	Consolidated	
(D) WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR	**2008 Number**	2007 Number
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	**75,000,000**	14,606,882
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	**75,000,000**	14,606,882

(E) INFORMATION CONCERNING THE CLASSIFICATION OF SECURITIES

(i) Options

Options are considered to be potential ordinary shares. The options are not included in the calculation of diluted earnings per share because they are anti dilutive. These options could potentially dilute basic earnings per share in the future. Details relating to the options are set out in note 28.

(ii) Cumulative redeemable preference shares

The cumulative redeemable preference shares are not ordinary shares and have not been included in the determination of basic and diluted earnings per share. These shares are classified as liabilities (refer to note 18).

28 SHARE-BASED PAYMENTS

(A) QRXPHARMA EMPLOYEE SHARE OPTION PLAN (ESOP)

The QRxPharma Limited Employee Share Option Plan (Limited ESOP) was approved by shareholders at the extraordinary general meeting of members held on 24th April 2007.

Under the Limited ESOP shares may be issued by the company to eligible employees at an exercise price as determined by the remuneration committee, being not less than the share price on the grant date of the options. Any person who is employed by, or is a director, officer, executive or consultant of the Company or any related body corporate of the Company and whom the remuneration committee determines is eligible to participate in the option plan are eligible to participate in the plan. Employees may elect not to participate in the scheme.

The total number of shares that shall be reserved for issuance under the option plan shall not exceed ten percent (10%) of the Diluted Ordinary Share Capital in the Company as at the date of issue of the relevant options under the option plan, subject to changes in capitalization as provided in clause 16.3 of the option plan. The approval of the Company's shareholders must be obtained for any amendment to the option plan in relation to:

(a) increasing the maximum aggregate number of shares that may be issued under the option plan;

(b) any change in the class of employees eligible to receive options under the option plan;

(c) any change in the shares reserved for issuance under the option plan; and

(d) substitution of another entity in place of the Company as the issuer of shares under the option plan.

Options will lapse if they are not exercised before the expiration date or if the option holder leaves the employment of the Group. The Board reserves discretion to waiver the latter provisions.

Options granted under the plan carry no dividend or voting rights. The vesting period for each option is 3 years, or as varied by the Board, one third vesting 12 months from the date of grant and the balance vesting equally each year over the remaining two year period. When exercisable, each option is convertible into one ordinary share and entitles the holder to the same ordinary share rights as set out in note 18. Shares issued under the scheme may be sold at the expiration of any Restriction Agreement between the eligible employee and the Company. Such restrictions may be imposed by the remuneration committee upon the grant of options under the option plan and such restrictions will be contained in the Option Agreement between the eligible employee and the Company. In all other respects the shares rank equally with other fully paid ordinary shares on issue (refer to note 18(c)).

(B) JP MORGAN SECURITIES AUSTRALIA LIMITED DEED

In part consideration for underwriting services in relation to the IPO, the Company granted JP Morgan Securities Australia Limited 322,181 options to purchase 322,181 ordinary shares in the Company. These options vested on 25 November 2007 and have a three year term through to 25 May 2010, with the option exercise price being $2.20.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2008

28 SHARE-BASED PAYMENTS (CONTINUED)

(C) SET OUT BELOW ARE SUMMARIES OF OPTIONS GRANTED UNDER THE PLANS:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Cashless options exercised during the year	Balance at end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
Consolidated and parent 2008								
31 March 2007	31 March 2014	$1.42	402,726	-	-	-	402,726	134,242
14 April 2007	14 April 2014	$1.00	2,819,082	-	-	(805,452)	2,013,630	671,210
25 May 2007	25 May 2014	$2.00	1,448,450	-	-	-	1,448,450	482,817
25 May 2007	25 May 2014	$1.00	552,726	-	-	-	552,726	184,242
25 May 2007	25 May 2010	$2.20	322,181	-	-	-	322,181	322,181
1 September 2007	1 September 2014	$1.70	-	50,000	-	-	50,000	-
1 October 2007	1 October 2014	$1.45	-	75,000	-	-	75,000	-
9 October 2007	9 October 2014	$1.34	-	50,000	-	-	50,000	-
1 January 2008	1 January 2015	$1.11	-	350,000	-	-	350,000	-
1 April 2008	1 April 2015	$1.05	-	600,000	-	-	600,000	-
1 April 2008	1 April 2015	$1.04	-	75,000	-	-	75,000	-
Total			5,545,165	1,200,000	-	(805,452)	5,939,713	1,794,692
Weighted average exercise price			$1.36	$1.13	-	$1.00	$1.36	$1.42

(C) SET OUT BELOW ARE SUMMARIES OF OPTIONS GRANTED UNDER THE PLANS (CONTINUED):

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeitted during the year	Balance at end of the year	Vested and exer-cisable at end of the year
			Number	Number	Number	Number	Number	Number
Consolidated and parent 2007								
19 December 2002	19 December 2012	$0.30	40,000	-	-	(40,000)	-	-
19 February 2003	19 February 2008	$0.15	40,000	-	(40,000)	-	-	-
1 December 2003	1 December 2006	$0.15	20,000	-	(20,000)	-	-	-
24 February 2004	24 February 2013	$0.15	10,000	-	(9,124)	(876)	-	-
24 February 2004	24 February 2014	$0.30	10,000	-	-	(10,000)	-	-
24 February 2004	24 February 2014	$0.15	6,875	-	-	(6,875)	-	-
25 February 2004	24 February 2014	$0.15	5,000	-	-	(5,000)	-	-
16 March 2004	16 March 2014	$0.15	10,000	-	(10,000)	-	-	-
19 May 2004	19 May 2014	$0.15	25,000	-	(25,000)	-	-	-
24 June 2004	24 June 2014	$0.15	20,000	-	-	(20,000)	-	-
13 July 2004	13 July 2014	$0.15	50,000	-	(50,000)	-	-	-
14 July 2004	14 July 2014	$0.15	40,000	-	-	(40,000)	-	-
17 August 2004	17 August 2014	$0.15	20,000	-	-	(20,000)	-	-
19 October 2004	19 October 2014	$0.15	784,248	-	(364,192)	(420,056)	-	-
19 February 2005	19 February 2015	$0.15	150,000	-	-	(150,000)	-	-
18 May 2005	18 May 2015	$0.15	240,000	-	(240,000)	-	-	-
21 September 2005	21 September 2015	$0.15	110,000	-	(45,000)	(65,000)	-	-
31 March 2007	31 March 2014	$1.42	-	402,726	-	-	402,726	-
14 April 2007	14 April 2014	$1.00	-	2,819,082	-	-	2,819,082	-
25 May 2007	25 May 2014	$2.00	-	1,448,450	-	-	1,448,450	-
25 May 2007	25 May 2014	$1.00	-	552,726	-	-	552,726	-
25 May 2007	25 May 2010	$2.20	-	322,181	-	-	322,181	-
Total			1,581,123	5,545,165	(803,316)	(777,807)	5,545,165	-
Weighted average exercise price			$0.15	$1.36	$0.15	$0.15	$1.36	$-

The net shares issued upon exercising of cashless options was 653,640 (refer note 18(b)).

During the year ended 30 June 2007, 509,325 shares were also issued as certain options carried anti dilution provisions (refer to note 18(b)).

No options expired during the periods covered by the above tables.

The weighted average remaining contractual life of share options outstanding at the end of the period was 5.8 years (2007 – 7.0 years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2008

28 SHARE-BASED PAYMENTS (CONTINUED)

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2008 was $0.69 per option (2007: $1.46). The fair value at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2008 included:

(a) exercise price: $1.04 to $1.70 (2007 – $1.00 to $2.20)

(b) grant date: 1 September 2007, I October 2007, 9 October 2007, 1 January 2008 and 1 April 2008 (2007 – 31 March 2007, 14 April 2007, 25 May 2007)

(c) expiry date: 1 September 2014, 1 October 2014, 9 October 2014, 1 January 2015 and 1 April 2015 (2007 – 31 March 2014, 14 April 2014, 25 May 2010, 25 May 2014)

(d) share price at grant date: $1.04 to $1.70 (2007 – $2.00)

(e) expected price volatility of the company's shares: 60% (2007 – 60%)

(f) expected dividend yield: nil% (2007 – nil%)

(g) risk free interest rate: 6.25% (2007 – 6.25%).

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(D) EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Options issued under employee option plan	**3,327**	149	**2,506**	149
Options issued under anti dilution provisions	**-**	76	**-**	76
	3,327	225	**2,506**	225

29 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No significant events have occurred after the balance sheet date which would have a material impact on the financial results of the Group.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2008

In the directors' opinion:

(a) the financial statements and notes set out on pages 31 to 72 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out on pages 14 to 21 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the *Corporations Regulations 2001*.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

Peter C Farrell
Director

Sydney
25 August 2008

AUDIT REPORT

FOR THE YEAR ENDED 30 JUNE 2008

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QRxPHARMA LIMITED

Report on the financial report

We have audited the accompanying financial report of QRxPharma Limited (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both QRxPharma Limited and the QRxPharma Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

PRICEWATERHOUSECOOPERS

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of QRxPharma Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

AUDIT REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2008

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Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 21 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of QRxPharma Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

Manoj Santiago
Partner

Sydney
25 August 2008

SHAREHOLDER INFORMATION

THE SHAREHOLDER INFORMATION SET OUT BELOW WAS APPLICABLE AS AT 29 AUGUST 2008.

A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

	Shares	Options
1 – 1000	48	-
1,001 – 5,000	228	-
5,001 – 10,000	187	-
10,001 – 100,000	228	10
100,001 and over	57	14
	748	24

There are 7 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary shares	
Name	Number held	Percentage of issued shares
HSBC Custody Nominees (Australia) Limited	10,139,834	13.52%
Dr John Holaday and Holaday Foundation	7,543,000	10.06%
Nanyang Financial Services Limited	5,925,586	7.90%
Innovation Capital Limited	5,269,090	7.03%
National Nominees Limited	4,582,052	6.11%
Spring Ridge Ventures I, LP	4,228,673	5.64%
Uniquest Pty Limited	4,004,499	5.34%
Dr Gary Pace	3,230,083	4.31%
Innovation Capital LLC	2,713,685	3.62%
ANZ Nominees Limited	2,518,495	3.36%
UIIT Pty Limited	2,175,338	2.90%
Ecapital Nominees Pty Limited	1,800,000	2.40%
Bacchus Global Assets LLC	1,380,366	1.84%
Dr Peter Farrell	1,280,540	1.71%
Citicorp Nominees Pty Limited	1,053,914	1.41%
Innovation Capital QRX Trust	992,793	1.32%
Lynx No1 Pty Limited	877,853	1.17%
Mr David Stack	525,895	0.70%
Gowing Brothers Limited	400,000	0.53%
Irrewarra Investments Pty Ltd	395,200	0.53%
	61,036,896	81.38%

SHAREHOLDER INFORMATION (CONTINUED)

THE SHAREHOLDER INFORMATION SET OUT BELOW WAS APPLICABLE AS AT 29 AUGUST 2008.

B. EQUITY SECURITY HOLDERS (CONTINUED)

Unquoted equity securities

	Number on issue	Number of holders
Options issued under the QRxPharma Limited Employee Share Option Plan and JP Morgan Securities Australia Limited Deed to take up ordinary shares	5,939,713*	24**

* Number of unissued ordinary shares under the options.
** No person holds 20% or more of these securities.

Escrowed ordinary shares and options

The following ordinary shares are subject to voluntary escrow: For the period through to 25 May 2009	34,229,407***

*** 10,461,317 of these ordinary shares are also subject to ASX escrow for the same period

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

Ordinary shares

	Number held	Percentage
Innovation Capital Limited and Innovation Capital LLC	7,982,775	10.64%
Dr John W Holaday and Holaday Foundation	7,543,000	10.06%
Nanyang Financial Services Limited	5,925,586	7.90%
Westpac Banking Corporation	4,928,247	6.57%
Spring Ridge Ventures I, LP	4,228,673	5.64%
Uniquest Pty Limited	4,004,499	5.34%

D. VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.

NOTES:

QRx Pharma

www.qrxpharma.com